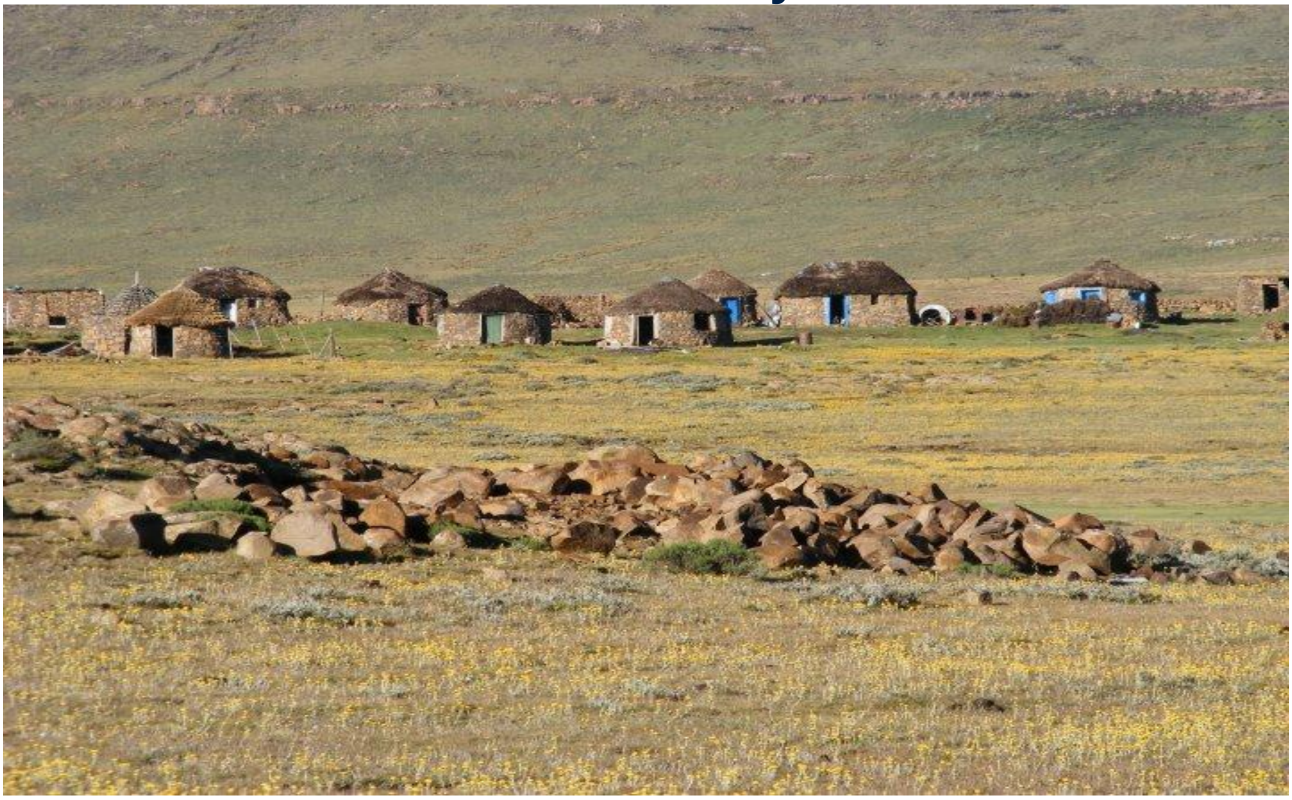
Lesotho Child Grants Programme

The historic and future costs of the CGP and its affordability



Executive Summary

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Executive Summary

The purpose of this costing study is to review the historical costs of the Child Grants Programme (CGP) between October 2007 and December 2012, simulate the likely future cost of the programme, and assess the programme's affordability under the current fiscal environment.

This report presents the results of one of four components of the overall evaluation of the CGP that was conducted between 2011 and 2013. The purpose of the evaluation is to establish the impact, effectiveness, efficiency and sustainability of the CGP. Readers that are interested in consulting the findings of other components of the evaluation should refer to the following documents:

- The Baseline Impact Evaluation report published by OPM in January 2012, particularly for a quantitative and qualitative analysis of the CGP targeting analysis[1]
- The Follow-up Impact Evaluation report published by OPM in February 2014, containing the CGP impact analysis and the operational performance analysis that were performed on the basis of the information collected in the quantitative panel survey[2]
- The results of the Qualitative Analysis of the Economic Impacts of the CGP published by OPM in September 2013 as part of a six-country case study.[3]

Historical costs

The total **historical costs** of the programme for Phase I stood at around M82 million for the period between October 2007 and December 2012. Of these costs, M31 million or 38% were transferred to beneficiaries. The three main drivers of expenditure under non-transfer costs were i) Institutional management and coordination (15%), ii) data collection costs for NISSA (9%) and iii) costs related to the design of the programme (7%). These three activities accounted for 30% of total costs of the programme. Overall, 15% of total costs of the programme were related to the **start-up** of the programme, 12% related to **periodic roll-out** activities (mainly beneficiaries selection and enrolment) and 69% to **day to day operations** (with 38% being related to the transfer value).

For **targeting**, the direct cost of households being surveyed and validated by the community (by a third party agency) was M6.6 million, equivalent to around M162 per household. This is particularly of relevance to the government if it aims to procure the services of the private sector in expanding the NISSA coverage and undertaking the retargeting exercise. The total cost of targeting including the costs of all other agencies involved in the programme stood at M9.6 million.

Payment costs per beneficiary under phase I averaged M32 per transfer and, while there is room for further cost saving through changes in payment modalities or synergies with other programmes, this will not result in significant reduction in the overall cost of the programme since cost of payments account for just under 3% of total programme costs.

In summary under Phase I, for every Loti transferred to beneficiaries the programme has spent an additional M1.65 during the entire period of the programme. Of this 40 Lisente was due to costs

[1] Pellerano, L., Hurrell, A., Kardan, A., Barca, V., Hove, F., Beazley, R., Modise, B., MacAuslan, I., Dodd, S. and Crawfurd, L. (2012), "CGP Impact Evaluation - Targeting and baseline evaluation report", OPM.

[2] Pellerano, L., Moratti, M., Jakobsen, M., Bajgar, M., Barca, V. (2014), "CGP Impact Evaluation – Follow-up Impact Report", OPM.

[3] OPM, (2013), "Qualitative research and analyses of the economic impacts of cash transfer programmes in Sub Saharan Africa - Lesotho Country Case Study Report", OPM.

related to the start-up of the programme. During the steady-state the cost of transferring one loti to beneficiaries was reduced to 50 Lisente.

Future costs of the programme

The **future costs** of the programme were analysed under three main scenarios to project the lower and upper bound costs of the CGP in the future. The scenarios are:

1) The programme maintains its current level of beneficiaries
2) The programme expands its geographical coverage by 100% by 2020, reaching 72 Councils by 2020
3) The programme reaches national coverage by 2020

These scenarios assumed the benefit levels to be linked to inflation; for households to be retargeted in 2018 (i.e. every five years); and for the programme to reach the poorest 30% of the households with at least one child. Based on these parameters, the cost of the programme under the different scenarios ranged from **M50-M58 million in 2014** to between **M95-M320 million in 2021**. The administrative costs of the programme varied widely depending on the scenario and year of implementation, ranging between 16-35% of total costs with the upper bound reflecting the retargeting year and its related roll-out activities.

Fiscal sustainability of the CGP

The projected costs of the CGP under different scenarios were linked to the **Medium Term Fiscal Framework (MTFF)** to assess its affordability in the future.

Assessment of current and future costs of the programme suggest the CGP to be **affordable** under the **current macroeconomic framework in the medium term** (2014/15 – 2017/18) and - with significantly less certainty about macroeconomic assumptions - in the year beyond that (2018/19-2020/21).

Under the scenario of no expansion, over the seven financial years, the Government will achieve a fiscal surplus averaging approximately 1% per annum. However, this average is positively influenced by a large surplus of 4.7% in 2015/16 whereas the subsequent trend shows a consistent deterioration to a deficit of 1.1% by 2020/21. Under this scenario the cost of the CGP is 0.4% of total government expenditure (0.2% of GDP) in 2014/15 and it remains fairly constant reaching 0.5% of total expenditure by 2020/21.

The cost of the programme under the scenario of 100% geographical expansion by 2020/21 increases steadily overtime and reaches 1.1% of total expenditure by 2020/21, equivalent to 0.5% of GDP. The fiscal deficit in 2020/21 is around 1.4% of GDP.

The upper bound costs of the programme are reflected under the scenario of full national expansion by 2020/21. Under this scenario the cost of the programme increases to 1.7% of total expenditure or 0.8% of GDP in 2020/21.

Conclusion

Analysis in this study suggests that the current CGP is not a significant cost within the overall fiscal framework (0.5% of total expenditure). However there are a number of risk factors that suggest a more cautious approach to expansion:

I. The current MTFF is based on existing policies and programmes and does not include any new or expanded policies or expenditure programmes that could be introduced (whether as part of the on-going 2014/15 budgetary process or in later financial years).

II. The outer years of the MTFF provide some indication of the trajectory of revenue and expenditure but are not fully specified and hence have limited reliability. These reservations apply with even more force to the extrapolations beyond the current MTFF period up to 2020/21.

III. Fiscal space is not equated to political space - there will be contestation between national priorities in different sectors and there are limitations to how much resources can be allocated to a particular programme in any given year.

IV. Threats to the wider economy and projected economic growth, in particular to the South African economy and the consequential levels of SACU revenue (not to mention the long-term future of the SACU Agreement and the associated revenue-sharing arrangements) can have significant implications on the fiscal balance of the government.

V. While the CGP is deemed as fiscally sustainable as a standalone programme, the affordability of the overall package of social protection interventions is less clear. Existing evidence suggest a relatively high proportion of government expenditure allocated to social protection, indicating a need for rationalisation and consolidation of all existing social assistance and safety net programme.

Policy makers should note that once an expenditure programme providing subsidies or transfers is established, it can be extremely difficult to cut back those entitlements even when the fiscal situation deteriorates. Since GoI has made a formal commitment to the expansion of the CGP, decisions about its value and targeted population must be considered very carefully within the long-term context of sound public financial management and Social Protection Strategy.

The Social Protection Strategy that the Government is in the process of developing will spell out its approach to social protection and it is within this process that the role and importance of the CGP and its affordability should be assessed.

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List of Abbreviations

BoS	Bureau of Statistics
CC	Community Council
CGP	Child Grants Programme
CIT	Cash In Transit
DFID	Department for International Development (UK)
GDP	Gross Domestic Product
GNI	Gross National Income
HBS	Household Budget Survey
HH	Household
IMF	International Monetary Fund
MIS	Management Information System
MoSD	Ministry of Social Development
MTFF	Medium Term Fiscal Framework
NGO	Non-Governmental Organisations
NISSA	National Information System for Social Assistance
OPM	Oxford Policy Management
OVC	Orphans and Vulnerable Children
PMT	Proxy Means Testing
SLB	Standard Lesotho Bank
SRV	Senqu River Valley
SSN	Social Safety Net
UNICEF	United Nations Children's Fund
VAC	Village Assistance Committee

1 Introduction

1.1 Purpose of study

The purpose of this costing study is threefold:

1. To review the historical costs of the Child Grants Programme (CGP) between October 2007 and December 2012.
2. To simulate the likely future cost of the programme, based on these historical costs combined with assumptions regarding the pace of expansion and future coverage.
3. To assess the programme's affordability under the current fiscal environment using the Government of Lesotho's Medium Term Fiscal Framework (MTFF).

This will enable the policy makers to make a more informed decision on the structure and pace of programme roll-out.

1.2 The structure of the report

The remainder of this report is structured as follows:

Section 2 provides a background of the CGP;

Section 3 introduces the conceptual framework for costing and fiscal sustainability analysis;

Section 4 reviews the historical costs of the programme;

Section 5 looks at the projected costs of the programme under a number of scenarios;

Section 6 assesses the affordability of the CGP programme; and

Section 7 concludes and provides a number of recommendations.

2 The CGP

2.1.1 Overview

The CGP[4] is an unconditional quarterly cash transfer targeted at poor and vulnerable households with children in Lesotho. The programme is run by the Ministry of Social Development (MoSD), with financial support from the European Commission and technical support from UNICEF-Lesotho. In the pilot stage technical assistance to the implementation was provided by Ayala Consulting and World Vision.

The first phase (Phase I) of the pilot programme was designed and implemented in three rounds: round 1A, round 1B and round 2 (Table 1). Round 1A of the CGP pilot began in October 2007 with payments in April 2009/July 2010 in three Community Councils (Thaba-Khubelu, Mathula and Semonkong), reaching about 1,250 households. The pilot was expanded in early 2010 under Round 1A to include three additional councils (Mazenod, Qibing and Ramatseliso) and then again under round 1B, covering an additional five councils and 3,400 households. Round 2 of the CGP pilot was launched in the last quarter of 2011 and implemented in 10 Community Councils spread across five districts (two in each district). By the end of 2012, the pilot programme covered 10,000 households in 21 Community Councils. Currently the CGP is well into the implementation of Phase II of its expansion which has led to covering 20,000 households in 37 Community Councils by the end of 2013. This study refers to the cost of Phase I.

Table 1 The different rounds under Phase I of the programme

Round	Community Councils	First date of payment
1A	Thaba-Khubelu; Mathula; Semonkong; Mazenod; Qibing; Ramatseliso	April 2009/July 2010
1B	Makhoarane; Maisa-Phoka; Mapoteng; Maseepho; Makholane	Oct 2010
2	Qiloane; White Hill; Rapoleboea; Litjotjela; Malaoaneng; Tebe-Tebe; Kanana; Mosenekeng; Metsi-Maholo; Malakeng	Oct 2011

2.1.2 Targeting and enrolment

The targeting of the programme is based on a proxy means test (PMT) and community validation process. Initially a community mobilisation event was held during which community members were provided information about a planned census. Following this, household level information was

[4] This section heavily draws from programme descriptions provided in previous reports produced by OPM on the CGP including the rapid assessment; baseline impact evaluation report and the qualitative research and analysis of the economic impacts of the CGP carried out for the Food and Agriculture Organization.

collected through a community census and used to create the National Information System for Social Assistance (NISSA), a repository of household socio-economic information to be used as an integrated system for any future social assistance programmes introduced in Lesotho by both Government and non-government organisations (NGOs).

The PMT predicts the likelihood of a household having a certain level of consumption expenditure (used as an indicator of poverty) based on a number of proximate indicators of wealth such as dwelling conditions, household asset base and other household socio-economic characteristics. The appropriate correlates of poverty are drawn from the Household Budget Survey from 2002. Once the PMT was applied to the community census, households were categorised into five distinct groups: ultra-poor (NISSA 1), very poor (NISSA 2), poor (NISSA 3), less poor (NISSA 4) and better off (NISSA 5).

Following the NISSA categorisation, a community validation process was carried out by an community structure known as the Village Assistance Committee (VAC), established by the programme. The VACs were given the household list collected through the census (without the PMT ranking) and asked to verify those who were the poorest in their community based on set of criteria provided by the programme implementers.

Following the validation process, those households that were categorised as NISSA 1 or NISSA 2 **and** were also identified by members of their community as being the ‘poorest of the poor’, **and** had at least one child were selected as eligible households. These households were notified through printed certificates and notified of the enrolment date.

2.1.3 Transfer value and payment delivery mechanism

The transfer value for the pilot CGP was set at a flat rate of M120 ($12) per month per household and was disbursed every quarter. However with effect from April 2013, the cash transfer has been linked to household size as follows:

- Households with 1-2 child members M360 (US$ 36) quarterly;
- Households with 3-4 child members M600 (US$ 60) quarterly; and,
- Households with 5 and more child members M750 (US$ 75) quarterly.

Payments are made through a cash-in-transit (CIT) firm at one or two pay points per community council on a quarterly basis. In some areas the payment is made through the Standard Lesotho Bank (SLB).

3 Conceptual framework for costing and fiscal sustainability analysis

3.1 Historical costs of the programme

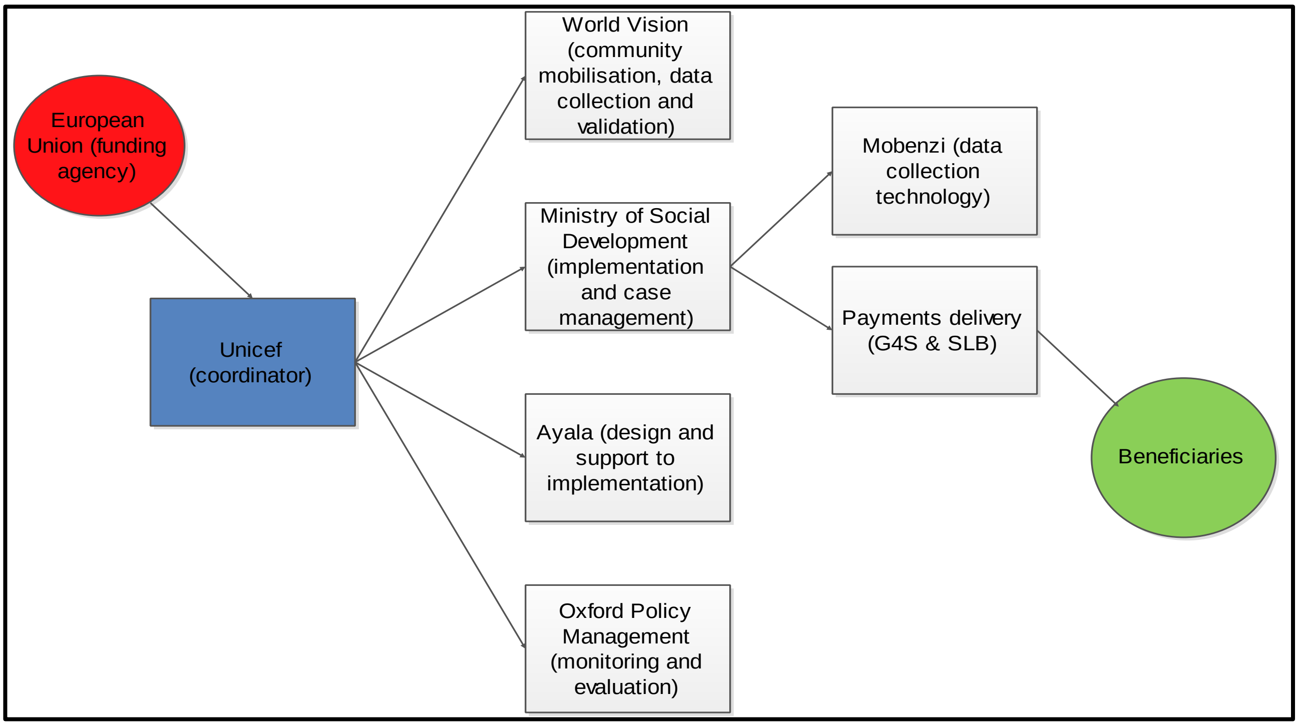
3.1.1 Scope of the work

The historical costs of the CGP are captured here for the whole of Phase I, which commenced in October 2007 and reached full coverage - approximately 10,000 households - in December 2011. In addition the study shows the continuation of the costs for the 'Phase I households' through to December 2012, in order to provide a clearer picture of the operational costs of the programme once it has reached a maturation point and when most of the start-up and roll-out costs have already been incurred.

Phase I of the CGP was funded under the project, "Support to Lesotho HIV and AIDS Response: Empowerment of Orphans and Vulnerable Children" (OVCs)). This project contained a number of components including one on social protection[5]. The CGP was a sub-component under this category and therefore only costs related to this were relevant for this analysis.

As shown in Figure 1, the programme was funded by the European Union and managed by UNICEF in conjunction with the Ministry of Social Development (MoSD). Ayala Consulting provided the technical support to design and implementation; World Vision undertook the main roll-out activities of the programme (community mobilisation, NISSA data collection and community validation); and OPM was responsible for the independent evaluation of this programme. Other implementing agencies included G4S security & Standard Lesotho Bank (SLB) for payments delivery and Mobenzi Researcher for data collection technology.

Figure 1 Flow of resources of the CGP



[5] The full list of components were social protection, provision of basic needs, HIV prevention, access to education, supportive environment, institution capacity development, improving evidence and leadership and coordination.

Source: OPM.

This costing study looks at the financial costs of the programme, based on financial records provided by UNICEF and the implementing agencies. It looked at all direct and indirect costs incurred on the CGP by UNICEF[6], MoSD, Ayala Consulting, OPM, World Vision, G4S, SLB and Mobenzi Researcher.

The study does not include costs incurred by the EU in engaging with this programme and nor does it include costs incurred by the beneficiaries (e.g. cost of collecting payments).

3.1.2 Costing structure and disaggregation

The costing information provided by the programme stakeholders was a mix of input- and activity-based costs drawn from their accounting records. The data were collected during the period June-December 2013 and through three international missions to Maseru. These costs were assigned activities according to the timeline of the programme, on supporting documentation and on a set of assumptions derived in consultation with implementing agencies[7]. These activities were further grouped into categories, namely a) start-up of the programme, b) roll-out activities, and c) activities related to on-going operations of the programme, management and coordination.

Start-up activities

Start-up activities are generally once off, fixed costs incurred at the beginning of a programme of a particular size and design. They relate to the establishment of the necessary infrastructure for undertaking the programme. This may include initial studies on potential cash transfer modalities, costs of setting up systems and recruiting staff to undertake and manage the programme.

Roll-out activities

These activities relate to the cost of targeting and enrolling programme beneficiaries. This in the first instance includes the costs of listing and capturing of information into NISSA[8], and the subsequent process of validation and actual enrolment. Once households are enrolled these costs will no longer be necessary by the programme until there is a re-targeting exercise or until the programme is redesigned.

Operational activities

These costs are related to the regular operations of the programme. They include the regular payment costs as well as information dissemination and case management. These costs are expected to recur on a regular basis whilst the programme is in operation. The operational costs of the programme include the costs incurred by MoSD at the central and district levels for managing the programme, but excludes the costs incurred by UNICEF for the purpose of managing and coordinating the activities of the programme implemented by the various stakeholders. This later cost is assigned in institutional management and coordination and shown as a separate line item that cuts across all three categories described above.

[6] For UNICEF, costs associated with relocation and security for international staff are not included under this costing exercise.
[7] The detailed set of assumptions used are summarised in **Error! Reference source not found.**.
[8] Over time NISSA is meant to become the national repository (single registry) for information on vulnerable households and will be available for use by other programmes. However, it must currently be viewed as a system set up and implemented for the purpose of CGP operations only.

3.2 Simulation of future costs of the programme

The potential costs of the programme depend on variations in key parameters, including the number of beneficiaries, the value of the transfer, the regularity and mode of payment, geographical coverage and the period for retargeting. This costing study developed a toolkit that enables programme officials to simulate the costs of the programme under many different scenarios based on changes to a number of these key parameters (See Section 3.2 and Annex B).

The unit costs were derived based on the historical costs of the programme. The simulations also drew on current draft poverty estimates from the 2010 Household Budget Survey data and population projections provided by the Bureau of Statistics (BoS) to estimate the number of potential beneficiaries.

Using these we simulated alternative coverage scenarios, and estimated financial requirements on the basis of current transfer structures and targeting options.

3.3 Fiscal sustainability analysis

3.3.1 Definition

To examine sustainability, we use the concept of fiscal space. The concept of fiscal space for a desired purpose or programme is defined as:

> *"the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's overall financial position".*[9]

This definition makes it clear that the fiscal space concept is closely linked to the concept of sustainable finance which Heller defines as:

> *"the capacity of a government, at least in the future, to finance its desired expenditure programs, to service any debt obligations (including those that may arise if the created fiscal space arises from government borrowing), and to ensure its solvency."*

Both definitions introduce the idea of inter-temporal coherence; any borrowing in the short term to increase today's fiscal space must be offset by some reduction of the fiscal space available in the future when today's borrowing must be repaid. Therefore, for any social welfare expenditure to be sustainable, it must not only be affordable at the present time, but also at all times in the future.

3.3.2 Methodology and approach

To assess the likely fiscal space in practical terms we review the affordability of the CGP within the Medium Term Fiscal Framework (MTFF) of the Ministry of Finance and examine how the introduction of the CGP under a number of scenarios interacts with the key economic indicators, in particular the Governments' fiscal balance.

The MTFF provides an overview of the resource envelope for government operations in the medium term (3 years). It contains forecasts for revenue collection and government expenditure under the current policy and economic environment. By doing so the MTFF shows the current

[9] Heller, P. (2005) *Understanding Fiscal Space*, IMF Policy Discussion Paper , IMF

fiscal balance and allows us to examine the impact of change in expenditure levels on the overall resource envelope.

We use the latest MTFF which summarises the current resource envelope for the 2014/15 budgetary process that is circulated to the line ministries for the preparation of their budgets for the coming fiscal year and the two subsequent years. In order to obtain some understanding of the impact of the CGP in future years we have extrapolated the outer years of the MTFF up to 2020/21.

The CGP can be linked to the fiscal framework through three main variables. These are social assistance benefits classified under transfers, the cost of goods and services (this includes costs of contracting out service providers) and the wages and salaries of the additional staff assigned to the CGP under the MoSD. The CGP costs were derived from the costing projections and converted from calendar to fiscal year basis.

We insert the difference between the value of the CGP transfer under the different scenarios and the baseline as an additional line item under the social cash benefits[10]. The costs of delivering the programme are divided into costs related to its roll-out and costs associated with day-to-day operations of the programme. These costs are included as additional goods and services.

The salaries of CGP staff are included in the 2014/15 estimates under compensation of employees (wages and salaries). For all subsequent years, the framework automatically updates these costs based on assumptions on inflation and real salary increments.

Linking the CGP to these variables results in automatic updates to the expenditure projections and emerging fiscal balance.

It is important to note that the costs under the fiscal sustainability analysis do not include any of the technical support costs for design of the programme that were incurred during Phases 1 and 2 of the programme. We assume any such costs to be borne by the international partners.

3.4 Caveats

When interpreting the findings of this study the following important caveats should be noted:

1) The estimates of poverty are from the 2010 Household Budget Survey (HBS) based on provisional consumption aggregates provided by the BoS that are currently not adjusted for prices and are in the process of being revised. Therefore the estimates of the bottom 30% of the population with children under 18 may change once more robust estimates are available.

2) The household structure under the 2010 HBS and as a result its projections are different from the household structure of the targeted communities registered under NISSA. As a result of this there is a big shift in the composition of households - from small to large households sizes - following retargeting for our projections in 2018.

3) This study makes use of the latest MTFF that is used for the current budgetary discussions. Invariably the budgetary discussions will result in new and additional costs that are likely to affect the key economic indicators. The magnitude of these new costs will not be known until the 2014/15 budget is finalised.

[10] The baseline MTFF includes forecasts for the value of the transfer for 2014/15 we have replaced this forecast with our own forecasted values.

4) The MTFF is a medium term planning tool and is not meant to provide long term projections. Therefore the outer years of our estimates should be viewed as extrapolations rather than projections.

5) The MTFF is not based on a dynamic model of the economy. Because we have been forced to rely on the MTFF, a shortcoming of our approach is that the impact of the CGP on the economy and the interaction of the CGP with some key economy variables are not adequately captured.

6) The MTFF looks at the resource envelope under current circumstances. Thus, it fails to consider threats to major revenue items e.g. over a quarter of revenue is derived from the Southern Africa Customs Union (SACU) and fluctuations in this source of revenue (as occurred in 2010/11) have serious repercussions on the Government's fiscal balance and can cause large budgetary deficits.

7) While the analysis of fiscal space provides an overview of potential availability of resources for the possible expansion of the CGP, resources will only be provided through successive annual budget appropriations subject to political endorsement of the programme in competition with alternative uses of those resources.

4 The historical costs of the Child Grant Programme

4.1 Overview

We noted in section 3.1 above that the historical costs presented here cover the whole of Phase I of the CGP, from October 2007 to December 2011, and also the continuation of the costs for the 'Phase I households' through to December 2012, in order to provide a clearer picture of the operational costs of the programme once it has reached its ‘steady state’ equilibrium, i.e. when the only costs incurred are related to the programme administration and payment delivery.

In addition to looking at the costs of the programme during the entire period we look at the costs during the first 15 months when the programme was being set up (Q3 2007 – Q4 2008); the period when many of the core activities of the programme began—specifically when the beneficiaries were being selected and began to be paid (Q1 2009 – Q4 2011); and finally when the programme under Phase I was fully operational with no further costs under design and roll-out (Q1-Q4 2012).

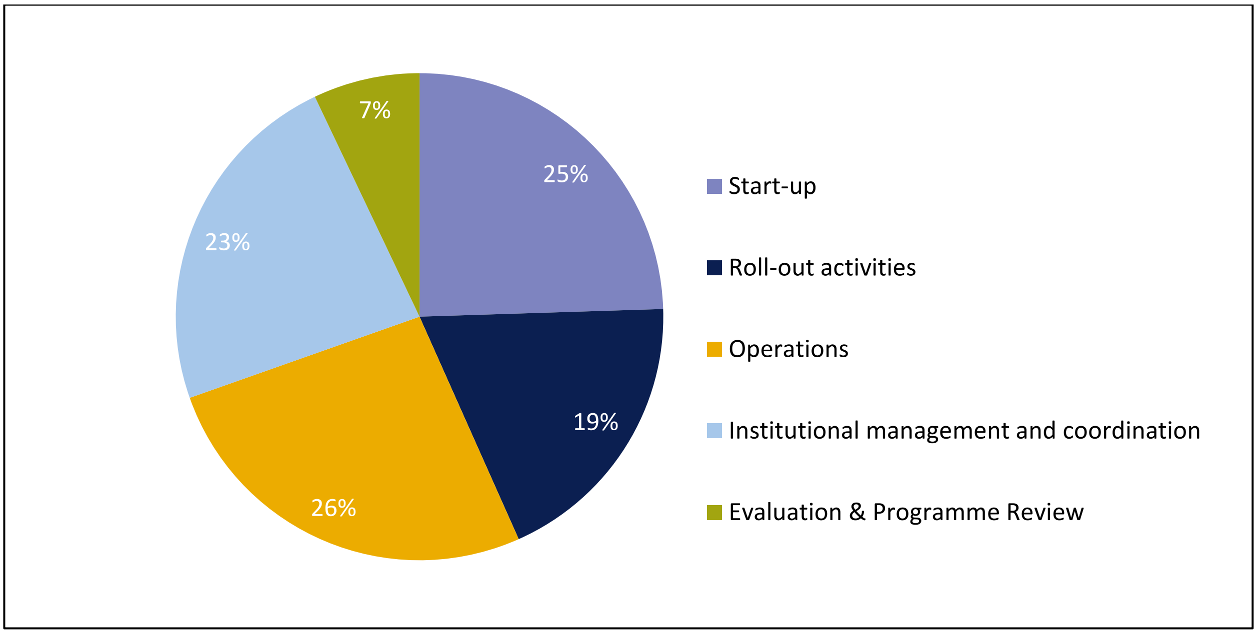
4.2 Costs of the programme

4.2.1 Key cost drivers

The total costs during the period under review stood at close to M82 million (US$8.2 million). The value of the transfer to the beneficiaries stood at close M31 million, equivalent to 38% of total costs; the remaining M51 million (62%) was devoted to administrative costs (Table 2). Within the administrative costs (i.e. costs excluding the value of transfer) operations accounted for 26% of total costs, start-up 25% and institutional management and coordination 23% of these costs (Figure 2).

We disaggregate the entire costs of the programme by three distinct components of i) start up; ii) roll-out; iii) operations. The institutional management and coordination costs cutting across these three components and evaluation and programme review costs are shown separately. Costs under these phases are explored in turn below.

Figure 2 Breakdown of administrative (non-transfer) costs



Source: MoSD, UNICEF, World Vision, Ayala, G4S and authors calculations

Table 2 Historical costs of the CGP

Activity	Oct 2007 - Dec 2012 Entire period	%	Oct 2007 - Dec 2008 First 15 months	%	Jan 2009 - Dec 2011 Core period of design and implementation	%	Jan 2012 - Dec 2012 Steady state	%
Start-up								
Design	5.45	7%	0.59	15%	4.86	8%	-	
Equipment	3.51	4%	2.39	61%	0.95	2%	0.17	1%
Equipment – Handsets	0.46	1%			0.46	1%	-	
Capacity building & training	3.04	4%	0.22	6%	2.66	5%	0.17	1%
Sub-total	**12.5**	**15%**	**3.2**	**82%**	**8.9**	**16%**	**0.3**	**2%**
Roll-out activities								
Community mobilisation	0.93	1%	-		0.93	2%	-	
Data collection – NISSA	7.12	9%	-		6.91	12%	0.21	1%
Validation / Enrolment	1.27	2%	-		1.27	2%	-	
Capacity building & training	0.26	0%	-		0.26	0%	-	
Sub-total	**9.6**	**12%**	**-**		**9.4**	**16%**	**0.2**	**1%**
Operations								
Payment cost	2.28	3%	--		1.19	2%	1.09	5%
Case management	0.14	0%	-		0.06	0%	0.08	0%
Monitoring & supervision		1%	0.0	0%	0.53	1%	0.30	1%
Tech sup to Implementation	1.53	2%	-		0.87	2%	0.66	3%
Communication	1.06	1%	0.0	1%	0.69	1%	0.33	2%
Central administrative support	3.88	5%	0.1	3%	2.70	5%	1.06	5%
District administrative support	3.64	4%	0.0	0%	2.44	4%	1.20	6%
Sub-total	**13.4**	**16%**	**0.2**	**4%**	**8.5**	**15%**	**4.7**	**23%**
Institution mgt & coordination	11.88	15%	0.56	14%	9.54	17%	1.79	9%
Transfer to beneficiaries	**30.85**	**38%**	**-**		**17.52**	**31%**	**13.33**	**65%**
Evaluation & Review	3.60	4%	-		3.60	6%	-	0%
Total Cost (Million Maloti)	**81.74**	100%	**3.91**	100%	**57.43**	100%	**20.40**	100%

Source: MoSD, UNICEF, World Vision, Ayala, G4S and authors' calculations

4.2.2 Start-up

Start-up costs are one-off costs that will not be repeated in the short term or in the absence of major changes to how the programme is set up and implemented. These costs include designing the programme, investing in equipment and building the capacity of the individuals and institutions involved in implementation[11]. These accounted for 15% of the total costs of the programme. Designing the programme amounted to around M5.4 million (44% of total start-up costs) and equipment to a further M4 million (32% of total start-up costs). With the exception of costs associated with equipment, (including handsets) most of these costs were incurred during the second and third year of the CGP (Jan 2009-Dec 2011) when a major redesign of the programme occurred.

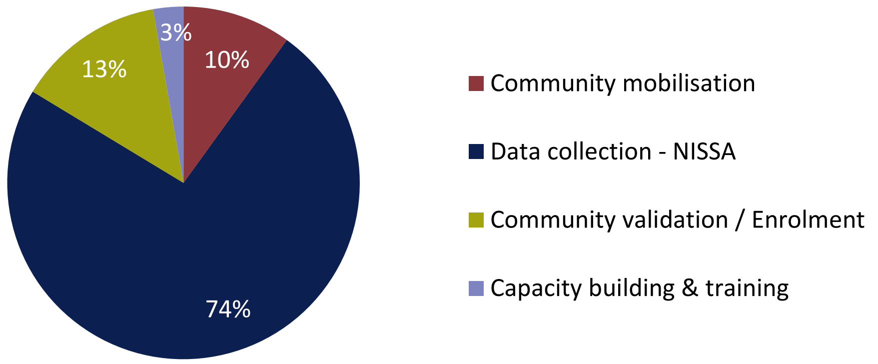
4.2.3 Programme roll-out

Roll-out costs relate to activities undertaken to operationalize a designed programme. It includes activities such as informing communities about the programme, collecting information on households, identifying beneficiaries, enrolling them in the programme and additional support in capacitating those engaged in these activities (for example training of the VAC staff). Once the programme is fully operational and when no additional beneficiaries are added to the programme, costs related to roll-out activities will only recur when the programme retargets its beneficiaries. Roll-out activities amounted to 12% of the total costs of the programme. The bulk of costs during this phase related to the census-based data collection with just over M7 million or 9% of total costs of the programme (See Box 1 for detailed analysis of targeting).

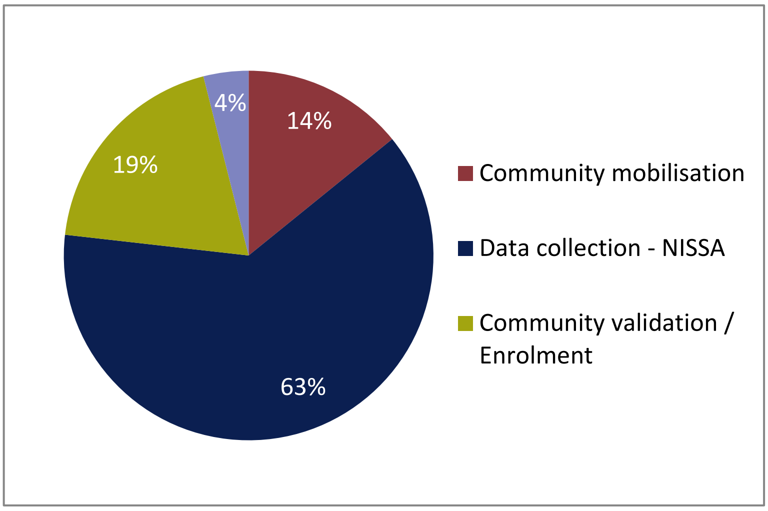
[11] It is likely that some capacity building and purchase of equipment will be required periodically and thus not strictly a start up costs.

Box 1 Cost of targeting under Phase I

The total cost of targeting under Phase I stood at around M9.6 million, of which M7.1 million or 74% was allocated to data collection for NISSA. The figure below shows a breakdown of these costs with community mobilisation and community validation accounting for 10% and 13% of total costs respectively.



In addition to the direct costs of targeting and surveying, the NISSA costs also include costs of technical support provided by Ayala as well as costs incurred by the MoSD. Excluding these costs, the cost of contracting the services to World Vision stood at M6.6 million, equivalent to around 70% of total cost of targeting. This is particularly relevant since the Government may choose to contract the private sector for future retargeting exercises. During Phase I this cost was equivalent to M162 per household within NISSA (M 960 per CGP beneficiary households), with costs of conducting a village census accounting for around 63% of total targeting costs (figure below).



Surprisingly the cost of targeting per NISSA household has increased under the expansion of the programme since 2012. These costs are not included in the historical costs of the CGP but have been used to inform future projections (See Annex C).

Source: World Vision, MoSD, Ayala Consulting and authors calculations

4.2.4 Operations

Operations costs of CGP relate to on-going costs of the CGP that will be incurred as long as the programme is in existence. Excluding the cost of transfer to the beneficiaries, the operational costs amounted to 16% of total costs of the programme.

This excludes the institutional management and coordination activities spear headed by UNICEF. This was approximately M11.9 million, or 15% of total costs of the programme. As noted earlier, UNICEF was coordinating activities amongst five stakeholders to ensure that appropriate systems and mechanisms were put in place for a smooth implementation of the programme in its pilot phase. Under these circumstances, this cost seems justified. And although these costs reflect the likely costs of a future pilot programme with similar implementation arrangements, they are unlikely to be indicative of costs of a programme fully managed by the Government in future.

A large proportion of costs incurred by MoSD is reflected under central and district administrative support. Costs under these headings amounted to M7.5 million or 9% of total costs and mostly relate to costs of staff involved in the general operations of the programme.

Interestingly the total cost of delivering payments to beneficiary households during Phase I was only M2.2 million[12]. Cumulatively during this period 66,652 transfers were made, having an average value of M451. The cost of the programme per transfer made (excluding the value of the transfer) was equivalent to M744 (See Table 3 below).

The cost of delivering the transfer varied based on payment modality and the location of the transfer. As shown in Table 3, the average cost of payment per beneficiary per transfer was M32. When payments were made through the Standard Lesotho Bank the costs were M8.5 per beneficiary transfer, however payments under this modality required beneficiaries to travel to town centres to collect payments, and are thus only suitable for community councils close to district capitals. Delivering payment through Cash In Transit (CIT) in lowlands and foothills averaged around M30 per beneficiary transfer compared to M48 in the mountains and SRV.

Table 3 Payment costs per transfer

Payment cost by geographical zone (Maloti)		Total
Bank	Total cost	29,113
	Total number of transfers	3,425
	Average payment cost	**8.5**
CIT - Lowlands/Foothills	Total cost	1,529,931
	Total number of transfers	50,801
	Average payment cost	**30**
CIT - Mountains/SRV	Total cost	597,431
	Total number of transfers	12,426
	Average payment cost	**48**
Total	**Average payment cost**	**32**

Source: MoSD, G4S and authors calculations

While there is some scope to reduce payment costs by exploring alternative payment modalities or synergies with other programmes in the future, this will not result in significant reduction in the

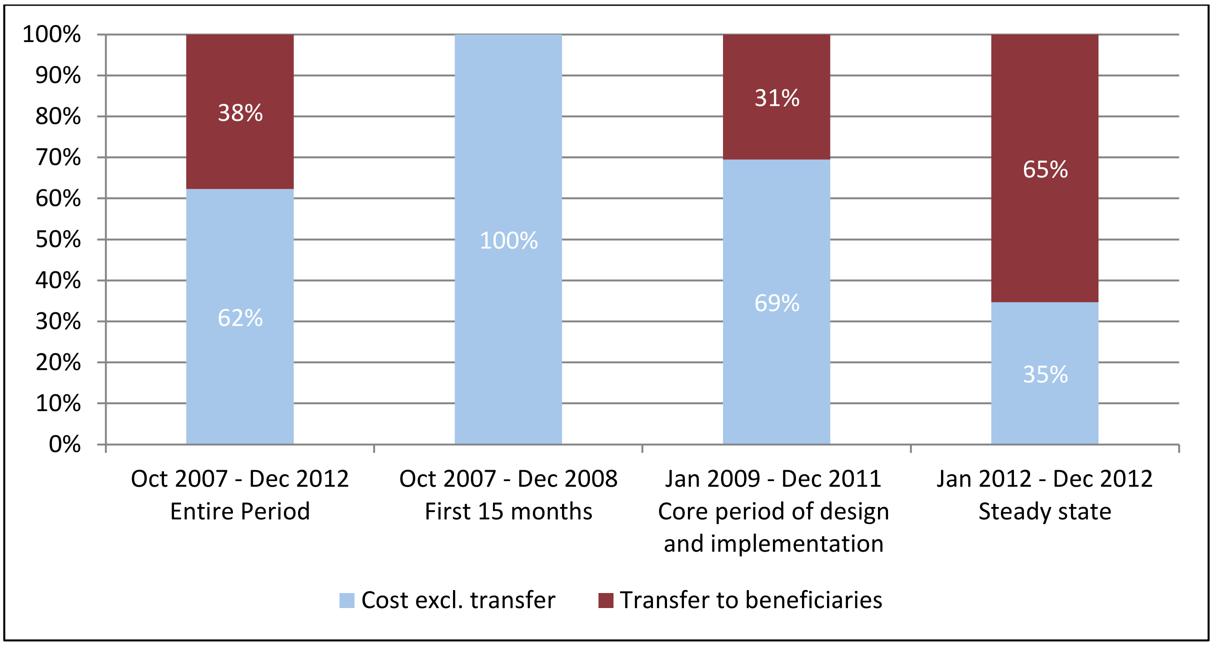
[12] These costs exclude the cost of MoSD staff responsible for payments. In the summary, these are included in the payment costs.

overall cost of the programme since cost of payments account for just under 3% of total programme costs and 4.5% of non-transfer costs.

4.2.5 Administrative costs at steady state

To get some indication of the likely administrative cost of the programme once it reaches its ‘steady state’ we look at the costs of the programme in 2012. For this period we have excluded all costs related to design and rollout of the programme. Under this scenario the costs of administering the programme is reduced significantly and reaches 35% of total costs of the programme. The transition over time of administrative costs as a proportion of total costs are reflected in Figure 3.

Figure 3 Transfer and non-transfer costs of CGP over time



Source: MoSD, UNICEF, World Vision, Ayala, G4S and authors calculations

4.3 Efficiency of the programme

The cost efficiency of the programme is measured by looking at the non-transfer cost of the programme as a percentage of total costs and the cost to transfer ratio, which is the cost of transferring one Loti to beneficiaries.

The administrative (non-transfer) cost of the programme as a share of total costs stood at 62% for the entire period. Figure 3 above shows that this ratio was 100% during the first 15 months, when all costs were non-transfer related, falling to 69% during the third and fourth year of the programme (January 2009 – December 2011) to only 35% in the steady state (2012). This pattern was expected as the result of significant costs related to design and roll-out of the programme during the pilot phase.

An alternative way of presenting this discussion is through the cost to transfer ratio. Presented this way the figures above essentially show that for the entire period of the programme it cost M165 to transfer M100 to beneficiaries. Of this total M40 was due to costs related to the start-up of the programme including design and purchase of equipment, M39 due to institutional management and coordination and M23 for data collection. These three costs combined accounted for M102 or 62% of the total administrative (non-payment) costs. During the steady-state the cost of transferring M100 to beneficiaries stood at M50, of which M13 was for institutional management and coordination.

Table 4 Historical costs of the CGP – Analysis of efficiency

Cost (Million Maloti)	Entire Period	%	First 15 months	%	Design and implementation	%	Steady state	%
Total Cost	**81.7**	100%	**3.9**	100%	**57.4**	100%	**20.4**	100%
Administrative costs	**50.9**	62%	**3.9**	100%	**39.9**	69%	**7.1**	35%
Number of transfers	**66,652**		**-**		**30,363**		**36,289**	
Administrative cost per transfer (Maloti)	**764**		**NA**		**1,314**		**195**	
Average value of transfer (Maloti)	**463**		**NA**		**577**		**367**	
Cost to transfer ratio	**1.65**		**NA**		**2.28**		**0.53**	

Source: MoSD, UNICEF, World Vision, Ayala, G4S and authors calculations

Note: The change over time on average value of the transfer (which should be 360) is due to the fact of payments being cumulated and paid at different quarters.

Cost to transfer ratios across programmes and countries varies enormously and is determined by the duration of the programme, the value of the transfer and costs related to design and roll-out of the programme. Nevertheless comparisons of the costs under CGP with the costs of the OVC programme in Kenya, a similar operational model, suggest potential room for additional efficiency gains. During the first three financial years of the CT-OVC programme[13], non-transfer costs accounted cumulatively for 51% of total known costs; the share of non-transfer costs during the third year alone—the first full year of 'steady state' disbursement—was 25%. These figures can be compared to 68% and 35% respectively for the CGP programme (Table 4). Part of the efficiency gains under CT-OVC programme are derived from the value of the transfer being higher therefore resulting in lower cost to transfer ratios. This said however the operational costs of the programme including management and coordination costs accounted for 39% of total administrative costs under CT-OVC compared to 50% for the CGP.

[13] OPM (2010), 'Cash Transfer Programme for Orphans and Vulnerable Children (CT-OVC), Kenya: Operation and impact evaluation, 2007-2009', July.

5 The future cost of CGP

5.1 Overview

This chapter simulates the potential costs of the CGP that are informed by the historical costs of the programme (Chapter 4) and derived based on a number of key parameters and underlying assumptions. The costs are reviewed under three main scenarios that capture the likely spectrum of costs going forward. In section 5.2 we elaborate on the parameters used for our forecasting and in section 5.3) we present our main findings.

5.2 Key parameters of the programme

The cost of the CGP in its current structure is largely determined by the following key parameters:

i. The intended coverage of the programme (e.g. poorest 10%, poorest 20% or poorest 30% of the population);
ii. The geographical coverage of the programme (e.g. National or only in certain community councils);
iii. The proportion of population that is reached and covered by the NISSA;
iv. The number of beneficiaries identified and validated as the poorest and enrolled by the programme;
v. The number of children in selected households;
vi. The value of the transfer;
vii. Mode of payment; and
viii. How regularly the beneficiaries of the programme are retargeted.

Once determined these parameters are combined with unit costs derived under the historical analysis of the programme to allow us to generate estimates of the future costs of the programme. We look at these costs under three main scenarios[14]:

1) The programme maintaining its current level of beneficiaries[15]
2) The programme expanding its geographical coverage by 100% to 72 Councils and approximately 40,000 recipient households by 2020
3) The programme reaching national coverage of 126 Councils and approximately 66,000 households by 2020

Under each of these scenarios we assess the costs of the programme reaching the poorest 30% of the population with at least one child under the age of 18. We assume that any change in the baseline occurs from 2015 onwards (i.e. no more Community Councils are included in the year 2014); that payment modalities remain as they are; that the value of the transfer grows in line with inflation; and that all beneficiaries are reselected following a comprehensive retargeting in 2018 i.e. after five years (see Annex B for detailed list of assumptions). These scenarios combined provide us with the lower bound and upper bound of costs of the programme which will be used as basis of fiscal sustainability analysis in chapter 6.

[14] We have developed a toolkit that provides the possibility of exploring many options and scenarios. Programme officials are encouraged to use this tool to explore the likely cost of the programme.
[15] NB There was a significant expansion of the CGP in 2013 to an additional 15 Community Councils and approximately 10,000 households. This means the 2014 baseline contains 36 Councils and approximately 20,000 recipient households.

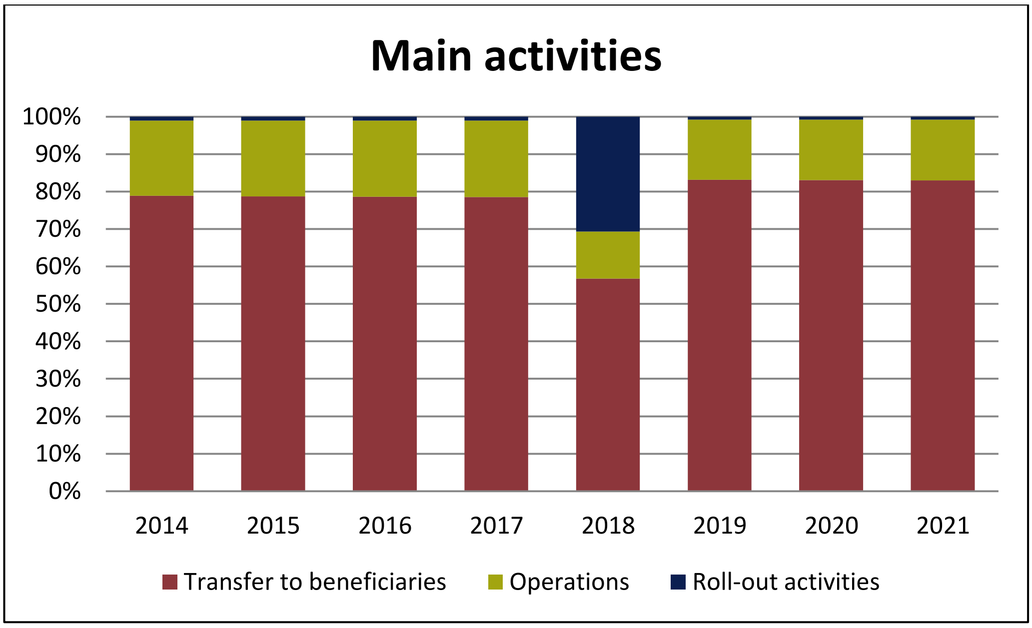
5.3 Results of simulations

5.3.1 Scenario I: Cost of the programme with no expansion

For this scenario we assume the programme does not expand any further and that the number of beneficiaries remains constant until 2018 when we assume the programme to reselect the beneficiaries.

Under this scenario the cost of the programme in 2014 is estimated at around M50 million increasing to close to M95 million in 2021 (Table 5). The cost of administering this programme is estimated at around 17-21% of total costs during normal years but increases to 43% during the retargeting year. In that year 31% of the total costs are related to the retargeting exercise, including the cost of undertaking a census at the community and validation its results (Figure 4). Around 3-5% of all costs are related to the delivery of the payments to beneficiaries.

Figure 4 Scenario I: Cost structure by main activities (%)



The average cost of one transfer in 2014 is estimated at M132 and the average value of the transfer at M491[16]. In 2021 this is estimated at M204 and M994 respectively (at 2021 prices). Under this scenario the programme spends between M20-M30 for every M100 it gives to a beneficiary in a normal year and M80 for the same amount during the retargeting year.

[16] Note that this is not M360 because of recent changes to index payment to the number of households.

Table 5 CGP cost projections under Scenario I: No expansion

Annual cost (Million Maloti)			2014	2015	2016	2017	2018	2019	2020	2021
Number of beneficiary households	**Total**		**20,208**	**20,208**	**20,208**	**20,208**	**19,921**	**19,921**	**19,921**	**19,921**
	Small		12,265	12,265	12,265	12,265	968	968	968	968
	Medium		6,098	6,098	6,098	6,098	7,723	7,723	7,723	7,723
	Big		1,845	1,845	1,845	1,845	11,231	11,231	11,231	11,231
Transfer to beneficiaries			**39.7**	**41.7**	**43.8**	**46.0**	**58.4**	**71.9**	**75.5**	**79.2**
Roll-out activities										
Community Mobilisation			-	-	-	-	6.5	-	-	-
Data Collection - NISSA			0.5	0.6	0.6	0.6	12.6	0.7	0.7	0.8
Community Validation			-	-	-	-	10.1	-	-	-
Equipment - handsets (% out of total field data collection budget (WV))		11%	-	-	-	-	1.3	-	-	-
Capacity Building and training			-	-	-	-	1.0	-	-	-
Sub-total			**0.5**	**0.6**	**0.6**	**0.6**	**31.6**	**0.7**	**0.7**	**0.8**
Operations										
Payment cost			2.7	2.8	3.0	3.1	3.2	3.3	3.5	3.7
Case management (% out of total transfer amount)		0.5%	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4
Monitoring & field supervision (% out of total transfer amount)		3%	1.1	1.1	1.2	1.2	1.6	1.9	2.0	2.1
Other Equipment (% out of total central and district administrative costs)		15%	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.1
Capacity Building and training (% for the MoSD out of central and district		7%	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Communication (% out of total central and district administrative costs, excludes UNICEF		6%	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Central Administrative support			1.1	1.2	1.3	1.4	1.4	1.5	1.6	1.7
District Administrative support			3.7	3.9	4.1	4.4	4.6	4.9	5.2	5.5
Sub-total			**10.1**	**10.7**	**11.3**	**11.9**	**12.9**	**13.9**	**14.6**	**15.4**
Total			**50.4**	**53.0**	**55.7**	**58.5**	**102.8**	**86.4**	**90.8**	**95.5**
Share of main activities										
Transfer to beneficiaries			79%	79%	79%	79%	57%	83%	83%	83%
Operations			20%	20%	20%	20%	13%	16%	16%	16%
Roll-out activities			1%	1%	1%	1%	31%	1%	1%	1%
Cost per transfer			**132**	**139**	**147**	**155**	**558**	**183**	**193**	**204**
Average value of transfer			**491**	**516**	**542**	**569**	**732**	**902**	**947**	**994**
Cost to transfer ratio			**0.3**	**0.3**	**0.3**	**0.3**	**0.8**	**0.2**	**0.2**	**0.2**

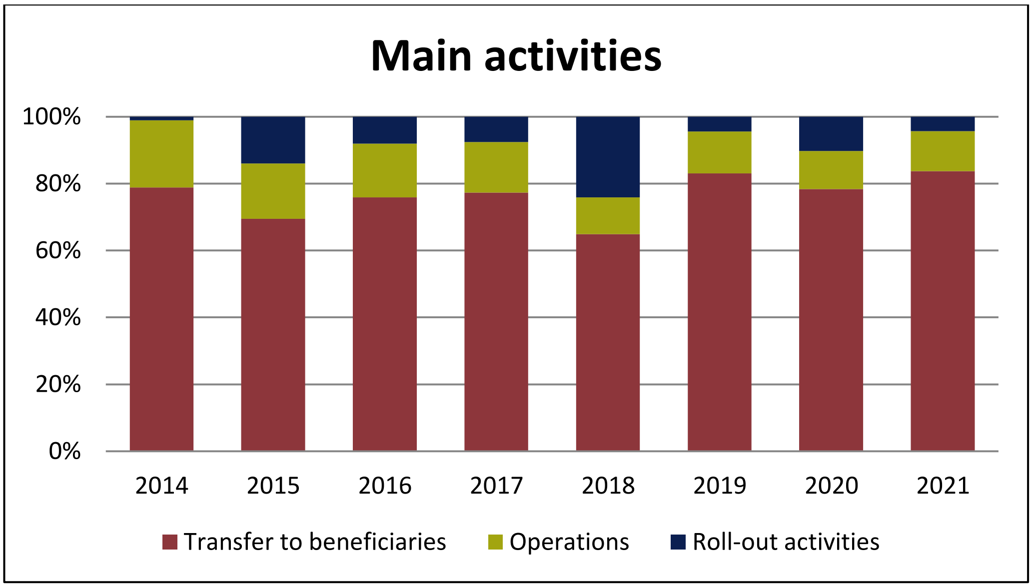
5.3.2 Scenario II: Cost of the programme with doubling of the geographical coverage

Under this scenario we assume the programme doubles its geographical coverage to 72 Community Councils with approximately 41,000 recipient households by 2020. The programme will therefore add an additional 6 community councils a year between 2015 and 2020.[17] Our model predicts that the programme would cost M198 million by 2020. The projected average cost per transfer and the average value of the transfer would increase from M132 and M491 in 2014 to M195 and M997 (at 2021 prices) by 2021 (Table 6).

The non-transfer costs of the programme under this scenario range between 16-30% of total costs, with the exception of 2018 where the main retargeting exercise takes place, causing non-transfer costs to reach 35% of total costs, of which 69% are due to roll-out activities (Figure 5).

For every M100 given to beneficiaries the programme spends between M20-M40 on delivering the transfer. This cost is higher when the programme is conducting significant roll-out activities.

Figure 5 Scenario II: Cost structure by main activities (%)



[17] The analysis in this report uses the old number of community councils.

Table 6 CGP cost projections under scenario II: Doubling of geographical locations (community councils) by 2020

Annual cost (Million Maloti)			2014	2015	2016	2017	2018	2019	2020	2021
Number of beneficiary households	**Total**		**20,208**	**23,943**	**27,750**	**30,978**	**33,486**	**37,548**	**41,476**	**41,588**
	Small		12,265	12,432	12,617	12,728	1,595	1,803	2,008	2,013
	Medium		6,098	7,259	8,368	9,719	12,340	13,710	15,276	15,310
	Big		1,845	4,252	6,766	8,531	19,551	22,035	24,192	24,266
Transfer to beneficiaries			**39.7**	**47.4**	**61.7**	**76.5**	**100.7**	**128.8**	**150.4**	**165.9**
Roll-out activities										
Community Mobilisation			-	1.6	1.2	1.4	7.7	1.3	3.6	1.5
Data Collection - NISSA			0.5	4.6	3.0	3.4	14.9	3.1	8.8	4.0
Community Validation			-	2.6	1.9	2.2	12.0	2.0	5.8	2.4
Equipment - handsets (% out of total field data collection budget (WV))		11%	-	0.5	0.3	0.3	1.6	0.3	0.9	0.4
Capacity Building and training			-	0.3	0.2	0.2	1.2	0.2	0.6	0.2
sub-total			**0.5**	**9.5**	**6.6**	**7.5**	**37.4**	**6.9**	**19.7**	**8.6**
Operations										
Payment cost			2.7	3.2	4.1	4.9	5.6	6.5	7.6	8.4
Case management (% out of total transfer amount)		0.5%	0.2	0.2	0.3	0.4	0.5	0.6	0.7	0.8
Monitoring & field supervision (% out of total transfer amount)		3%	1.1	1.3	1.7	2.1	2.7	3.5	4.1	4.5
Other Equipment (% out of total central and district administrative costs)		15%	0.7	0.8	0.8	0.9	1.0	1.0	1.1	1.2
Capacity Building and training (% for the MoSD out of central and district administrative costs in the steady state)		7%	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Communication (% out of total central and district administrative costs, excludes UNICEF communication costs)		6%	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Central Administrative support			1.1	1.2	1.3	1.4	1.4	1.5	1.6	1.7
District Administrative support			3.7	3.9	4.2	4.5	4.9	5.4	5.9	6.2
Sub-total			**10.1**	**11.3**	**13.1**	**14.9**	**17.0**	**19.4**	**21.9**	**23.8**
Total			**50.4**	**68.1**	**81.3**	**98.9**	**155.1**	**155.1**	**192.0**	**198.3**
Share of main activities										
Transfer to beneficiaries			79%	70%	76%	77%	65%	83%	78%	84%
Operations			20%	17%	16%	15%	11%	13%	11%	12%
Roll-out activities			1%	14%	8%	8%	24%	4%	10%	4%
Cost per transfer			**132**	**217**	**177**	**181**	**406**	**175**	**251**	**195**
Average value of transfer			**491**	**494**	**556**	**617**	**752**	**857**	**906**	**997**
Cost to transfer ratio			**0.3**	**0.4**	**0.3**	**0.3**	**0.5**	**0.2**	**0.3**	**0.2**

5.3.3 Scenario III: Cost of the programme with national coverage

Under this scenario we assume that the programme reaches national coverage by 2020. This assumes that 15 community councils are added to the programme annually. By 2020 the CGP would cover all households with children in the poorest 30% of the population (approximately 65,000 beneficiary households).

Under this scenario costs of the programme are projected to grow from around M50 million in 2014 to M320 million in 2020 (Table 7). The projected average cost per transfer and the average value of the transfer would increase from M132 and M491 in 2014 to M210 and M995 (at 2021 prices) by 2021 (Table 6). While the non-transfer costs are around 17-36% of the budget, in many of the projected years, half to three quarters of this budget is as a result of roll-out activities related to the expansion (Figure 6).

In 2015 for every M100 given to the beneficiaries the programme will spend M60 but between 2016 and 2020 only M20-M50 are spent on delivering the same amount to beneficiaries.

Figure 6 Scenario III: Cost structure by main activities (%)

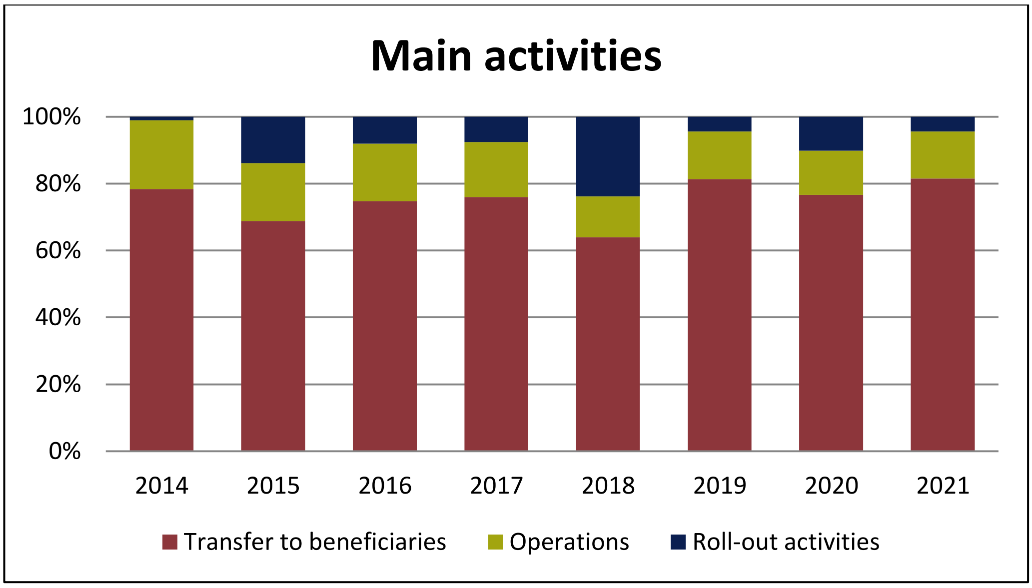


Table 7 CGP cost projections under scenario II: National coverage by 2020

Annual cost (Million Maloti)			2014	2015	2016	2017	2018	2019	2020	2021
Number of beneficiary households	**Total**		**20,208**	**28,532**	**37,191**	**45,615**	**52,267**	**59,951**	**66,133**	**66,392**
	Small		12,265	12,636	13,049	13,494	2,559	2,990	3,303	3,316
	Medium		6,098	8,689	11,833	14,974	19,253	22,014	24,452	24,545
	Big		1,845	7,207	12,310	17,147	30,455	34,947	38,379	38,531
Transfer to beneficiaries			**39.7**	**54.3**	**83.8**	**116.0**	**158.3**	**203.2**	**239.6**	**264.4**
Roll-out activities										
Community Mobilisation			-	3.2	3.1	2.3	9.5	2.8	6.9	4.1
Data Collection - NISSA			0.5	8.0	6.9	4.8	18.6	6.7	16.3	9.1
Community Validation			-	5.2	4.9	3.6	14.8	4.5	11.2	6.5
Equipment - handsets (% out of total field data collection budget (WV))		11%	-	0.8	0.7	0.5	2.0	0.7	1.7	0.9
Capacity Building and training			-	0.5	0.5	0.3	1.4	0.5	1.1	0.6
Sub-total			**0.5**	**17.7**	**16.1**	**11.6**	**46.4**	**15.2**	**37.3**	**21.3**
Operations										
Payment cost			2.7	3.6	5.3	6.9	8.6	10.4	12.3	13.6
Case management (% out of total transfer amount)		0.5%	0.2	0.2	0.4	0.5	0.7	0.9	1.1	1.2
Monitoring & field supervision (% out of total transfer amount)		3%	1.1	1.5	2.3	3.1	4.3	5.5	6.5	7.1
Other Equipment (% out of total central and district administrative costs)		15%	0.7	0.8	0.9	1.0	1.1	1.2	1.4	1.5
Capacity Building and training (% for the MoSD out of central and district		7%	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.7
Communication (% out of total central and district administrative costs, excludes UNICEF		6%	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6
Central Administrative support			1.1	1.2	1.3	1.4	1.4	1.5	1.6	1.7
District Administrative support			3.7	4.2	4.7	5.2	5.9	6.7	7.5	7.9
Sub-total			10.1	12.2	15.6	19.1	23.0	27.3	31.6	34.4
Total			**50.4**	**84.2**	**115.6**	**146.7**	**227.7**	**245.7**	**308.5**	**320.0**
Share of main activities										
Transfer to beneficiaries			79%	64%	73%	79%	70%	83%	78%	83%
Operations			20%	14%	14%	13%	10%	11%	10%	11%
Roll-out activities			1%	21%	14%	8%	20%	6%	12%	7%
Cost per transfer			**132**	**262**	**213**	**168**	**332**	**177**	**261**	**210**
Average value of transfer			**491**	**476**	**563**	**636**	**757**	**847**	**906**	**995**
Cost to transfer ratio			**0.3**	**0.6**	**0.4**	**0.3**	**0.4**	**0.2**	**0.3**	**0.2**

6 Fiscal sustainability of the CGP

6.1 Macroeconomic context

6.1.1 Economic growth and international reserves

Lesotho has witnessed steady growth in its Gross Domestic Product (GDP) during the past decade with an average growth rate of 4.2% between 2000 and 2012, in real terms.[18] GDP at constant prices is estimated to have grown by 6.8% and 5.4% for 2010/11 and 2011/12 respectively (Table 8). In 2012/13 the economy is projected to have grown by 4.3%, underpinned by strong construction activities and, to a lesser extent, increased mining activities (IMF 2013).

Table 8 Key economic indicators

Economic indicator	2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Projection	2013/14 Projection
GDP at constant prices	4.7	6.8	5.4	4.3	4
Consumer prices (average)	5.9	3.4	6	5.6	6.5
Average exchange rate (Maloti per U.S. dollar)	7.8	7.2	7.4	8.5	8.5
Current account balance including official transfers (% of GDP)	-3.1	-14.5	-24.2	-10.4	-14.5
Current account balance excluding official transfers (% of GDP)	-37.3	-36.1	-44	-43.2	-43.9
Gross international reserves (Months of imports)	5.3	3.8	3.5	4.2	4.6
Public debt (% of GDP)	37	34.4	36.7	38	37.5
External public debt (% of GDP)	33.5	29.7	30.5	33.4	33.5
Domestic debt (% of GDP)	3.4	4.7	6.1	4.6	4

Source: IMF 2013

Following the deterioration of the government's fiscal position in 2009/10, the country's current account balance worsened with imports into the country significantly outweighing its exports with a negative balance equivalent to 14.5% and 24.2% of GDP in 2010/11 and 2011/12 respectively. This has led to dwindling of the country's international reserves, falling from amounts equivalent to 5.3 months of imports in 2009/10 to 3.5 months of imports in 2011/12. Following a number of measures undertaken through the Extended Credit Facility programme (see section 6.1.2) to improve the international reserves, it is projected that this will further improve and is estimated to have reached 4.6 month of imports in 2013/14.

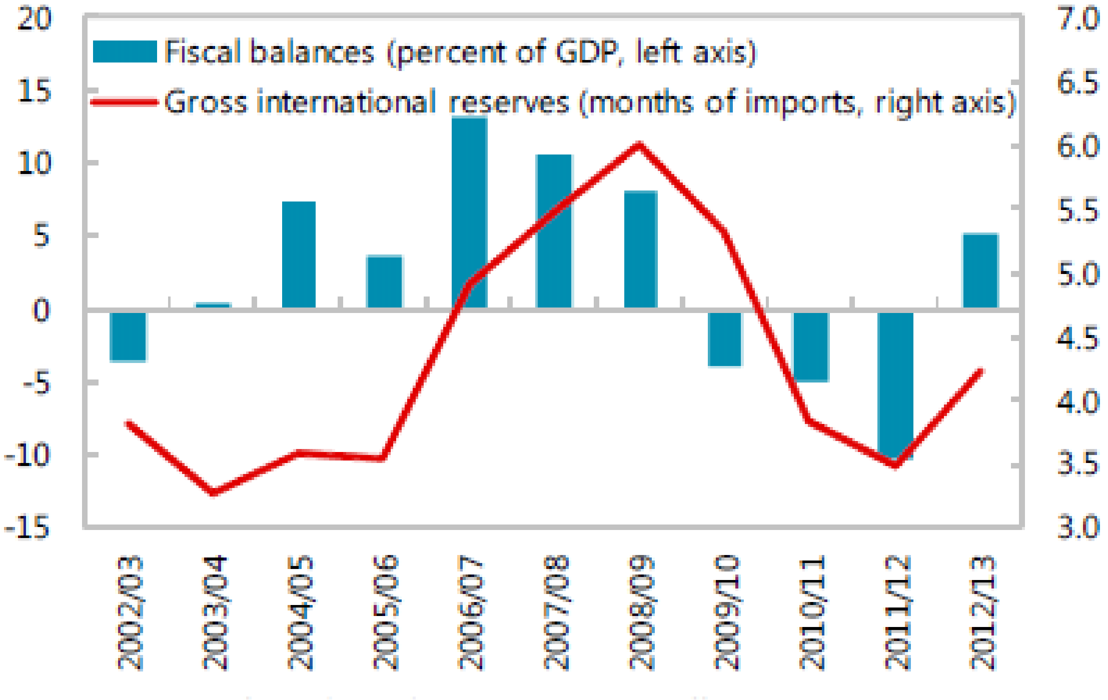
There are no universal rules that set a limit on how much debt a country can incur without facing repayment problems. A country must set its own debt strategy based on a wide range of country specific factors, such as the share of foreign denominated debt, the share of variable interest rate debt and the volatility of the country's economy, government revenues and exports[19]. Nevertheless, there are two sources that are widely used for the purpose of comparison and general assessment between countries:

[18] Bureau of Statistics (2012), National Accounts Data.
[19] Kardan, A. Sandagjav, N. Humphrey, E (2011), 'Institutional development - Food and Nutrition Social Welfare Program and Project: Macroeconomic and Fiscal Analysis of Social Welfare in Mongolia, June.

- the IMF/World Bank Debt Sustainability Framework proposes a limit for the Net Present Value (NPV) of external debt of 150% of exports, 40% of GDP and 250% of government revenue.[20]
- the Growth and Stability Pact established a limit on the debt stock of 60% of GDP for the euro zone countries, though many of the member countries exceeded this ratio even before the financial crisis.

Government's current debt levels are within the parameters set above at around 37% of GDP.

Figure 7 Fiscal balance and international reserves



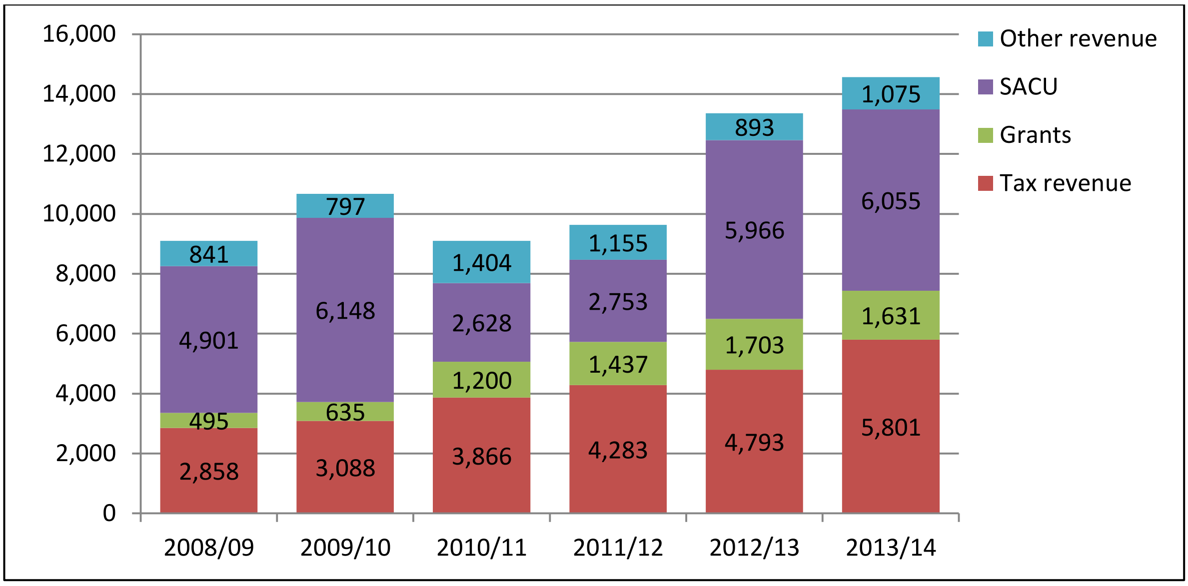
Source: IMF 2013

6.1.2 Fiscal balance

The current fiscal environment of Lesotho is one of consolidation and recovery. Expenditures outpaced revenue collected in for three years from 2009/10, reaching a negative fiscal balance of 10.4% of GDP in 2011/12.[21]. In order to counter this and attain a more sustainable fiscal position and restore macroeconomic stability the Government undertook a series of reforms with support from the International Monetary Fund through a three-year Extended Credit Facility (ECF) that began in 2010[22]. As a result of improvements in the external environment, particularly recovery of SACU revenue, as well as these reform policies, the fiscal position of the government has improved. In 2012/13 and 2013/14 the government registered a fiscal surplus equivalent to 5.8% and 3.5% of GDP respectively.

[20] See *How to do a Debt Sustainability Analysis for Low-Income Countries*, World Bank, 2006. These ratios are applied for countries with medium quality of policies and institutions, as measured by the Country Policy and Institutional Assessment (CPIA).
[21] Government of Lesotho (2013), Ministry of Finance, Medium Term Fiscal Framework.
[22] The core policy priorities under this programme included i) rebuilding international reserves to five month of imports coverage over the medium term; ii) maintaining fiscal consolidation to support the accumulation of reserves and ensure fiscal and external sustainability; and iii) implementing structural reforms to facilitate private sector-led growth.

Figure 8 Total revenue 2008/09-2013/14 (Million Maloti)



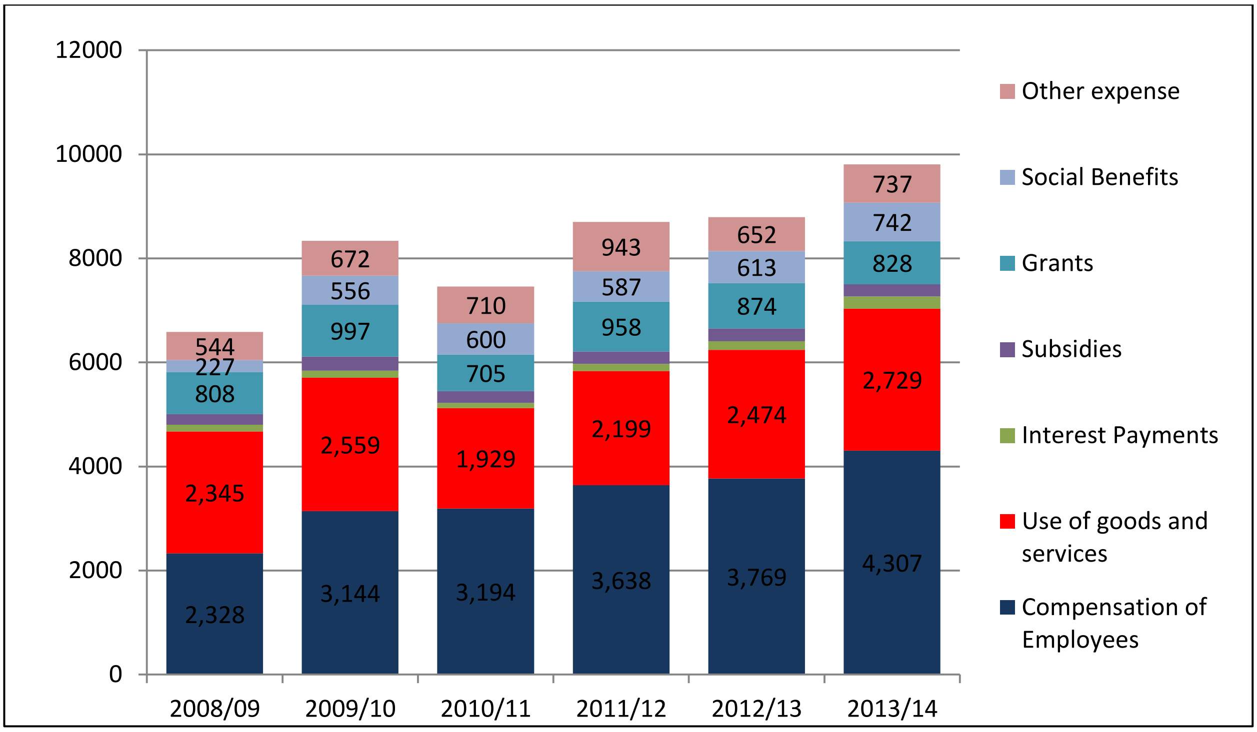
Source: Government of Lesotho (2013), Ministry of Finance, Medium Term Fiscal Framework.

As evident from Figure 8, SACU revenue witnessed a dramatic decline in 2010/11 falling from M6.1 billion in 2009/10 to 2.6 billion in 2010/11. Despite increases in all other sources of revenue, total revenue declined by 1.6 billion in one year. SACU revenue remained at the same level in 2011/12 but increased by 54% in 2012/13 reaching close to M6 billion and resulting in the overall revenue increasing by 28%.

Between 2008/09 and 2013/14 tax revenue has been increasing steadily, registering an annualised growth rate of 15% and reaching M5.8 billion in 2013/14. Nonetheless, SACU receipts still remain the most important revenue for the Government, accounting for 42% of total revenue in 2013/14, with large government deficits coinciding with reductions in this source of revenue.

Figure 9 shows Government expenditure by major categories over the period 2008/09 – 2013/14, during which it has grown at an annual average rate of 8%. Since it accounts for between 45-50% of GDP, aggregate Government expenditure is generally viewed as being high relative to Lesotho's state of development. In response to the decline in revenue the government reduced expenditure on goods and services from M2.6 billion in 2009/10 to M1.9 billion in 2010/11. The largest cost driver is wages and salaries. Since 2010/11 over 40% of total expenditure went to this item, which has grown by an annualised growth rate of 15%. To address this concern, Government has committed to rationalising its expenditure with particular focus on its wage bill (budget speech 2013/14).

Figure 9 Government expenditure 2008/09-2013/14 (Million Maloti)



Source: Government of Lesotho, Ministry of Finance, Medium Term Fiscal Framework (2013).

6.1.3 Medium term outlook

In the medium term the economy is expected to grow by more than 4%. This growth is supported by enhanced construction and infrastructure (including the second phase of the Lesotho Highlands Water Project) and to a lesser extent by the recovery of agriculture production. There are however a number of downside risks that may curtail this growth. These include: the health of the South African economy particularly its labour market and its level of imports from outside of SACU; slow recovery of diamond prices and expansion of mining activities; and threats to the textiles industry through expiry of African Growth Opportunity Act that provides preferential access to the American apparel market (IMF 2013).

The fiscal position of the Government is also favourable in the medium term. According to the latest MTFF the government will register a fiscal surplus of 1.6%, 4.7% and 2% of GDP for 2014/15, 2015/16 and 2016/17 respectively. This is consistent with commitments made in the 2013/14 budget speech that indicate a prudent approach to fiscal management in the medium term including the introduction of an integrated revenue management system and restructuring of the Lesotho Revenue Authority to enhance revenue collection and rationalisation of government expenditure and reduction in the wage bill through prioritisation of unfilled positions, a review of the current staffing structure and audit of the payroll[23].

These measures are aimed at maintaining a favourable fiscal position and building up international reserves to more than five month of imports. These commitments were reiterated in the sixth review of the ECF conducted by the IMF in August 2013.

It is important to highlight that the MTFF projection is based on current policies and programmes and that finalisation of the 2014/15 budgetary process may result in further increases in Government expenditure.

Review of the debt sustainability analysis conducted by the IMF and the World Bank show public debt to be manageable in the medium term with the present value of debt to GDP ratios declining to 30% by 2018/19 before increasing to 37% in 2020/21, well below the 40% indicative threshold established for low income countries.

These projections suggest that there is fiscal space available within the current fiscal framework for the medium term although the government is prioritising fiscal consolidation and rationalisation of expenditure.

6.2 Social assistance benefits in Lesotho

Social assistance benefits as defined by the Government[24] include national pension schemes (excluding the civil service contribution based scheme), public assistance programmes, school feeding programme, workers compensation and the CGP. Total expenditure on social assistance benefits stood at around M540 million in 2009/10, equivalent to 6.5% of total expenditure or 3.6% of GDP (Table 9Table 9). After some years of stability, the total has grown substantially in both 2012/13 and 2013/14 and is projected to reach M761 million in 2014/15. This is equivalent to 6.4% of total expenditure and 5.1% of GDP. The main cost drivers of social assistance benefits in Lesotho are the Old Age Pension (OAP) and the school feeding programme. In 2014/15, the OAP is projected to cost M448 million and the school feeding programme M38 million, representing 59% and 29% of total social assistance benefit costs respectively. The benefit costs of the CGP are projected at M37.8 million, accounting for only 5% of total social assistance benefits.

Table 9 Social assistance benefits in Lesotho (Million Maloti)

Social assistance benefits	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15*
Old Age Pension	288.0	254.2	266.2	357.0	448.5	448.5
APC Pension	22.0	21.1	22.0	20.6	5.9	19.0
LLA Pension				2.8	2.2	2.2
Public Assistance in Cash	26.4	43.3	38.1	38.8	27.1	28.9
School Feeding Programme	202.6	218.1	215.4	208.9	210.2	224.1
Public Assistance in Kind (CGP)					37.1	40.2
Workers Compensation	0.9	0.5	1.0	1.1	0.2	0.7
Total	**539.9**	**537.1**	**542.7**	**629.2**	**731.4**	**763.6**
Total as % of expenditure	**6.5%**	**7.2%**	**6.2%**	**7.2%**	**7.5%**	**6.4%**
Total as % of GDP	**3.6%**	**3.3%**	**3.0%**	**3.2%**	**3.4%**	**3.2%**

*Estimates

[23] Ministry of Finance (2013), 'Budget speech to the Parliament for the 2013/14 fiscal year', February.
[24] The definition used in the MTFF is based on the 2001 Government Fiscal Statistics Manual produced by the IMF. See http://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf

Source: Government of Lesotho, Ministry of Finance, Medium Term Fiscal Framework (2013).

The costs reported above only include the value of the transfer and not the administrative cost of running the respective programmes. A study conducted by the World Bank[25] that uses a broader definition of social assistance benefits[26] estimates the annual cost of all existing safety net programmes in Lesotho including their administrative costs to be approximately M1.48 billion, equivalent to 16% of total public expenditure or 9% of GDP in 2010/11[27]. The report further notes that the total cost of these programmes is high in comparison to many other low middle income countries[28] and that despite this high annual expenditure, the programmes are not always pro-poor and in fact only reach a small share of the poor. The report concludes by recommending the review and consolidation of existing programmes into a few nationwide programmes under a unified and coordinated system.

The CGP currently accounts for a small share of the social assistance benefits under its current scope and coverage but is part of a wider set of social assistance benefits that is costly and non-negligible. In the next section we assess the affordability of the CGP under the three scenarios explored in the previous chapter, under the assumption that the other social assistance benefits grow in line with their historical growth rates.

6.3 Findings

6.3.1 Overview

The fiscal sustainability of the CGP is assessed under the following three scenarios:

1) The programme maintains its current level of beneficiaries
2) The programme expands its geographical coverage by 100% by 2020/21
3) The programme reaches national coverage by 2020/21

Under each of these scenarios we assess the costs of the programme reaching the poorest 30% of the population with at least one child under the age of 18 (current design objective). The costs of the CGP derived in section 5 were converted into fiscal year values[29] and incorporated into the following items within the MTFF:

- Social assistance benefits: includes the value of the transfer.[30]

- Goods & services: includes all the roll-out activities as well as the non-salaried operational costs of the CGP.

[25] World Bank (2013), 'Lesotho: A safety net to end extreme poverty', May.
[26] They include the old age pension, CGP, public assistance programme, school feeding programme, OVC bursary programme, nutrition support programme, agriculture inputs fairs, national fertilizer and subsidy, tertiary bursary programme and integrated watershed management public works programmes. Some of these programmes, such as the nutrition support programme (WFP) are donor funded projects. Moreover some of the programmes, e.g. the tertiary bursary scheme, may not be viewed as a safety net by the government as they have a different purpose or objective, although they are transfers to households.
[27] It is important to note that these figures are only rough estimates based on review of available data and a number of underlying assumptions. The study does not undertake any detailed costing analysis and as such the programmes are not strictly comparable. Nevertheless, it provides some useful analysis for improving evidence based policy formulation for social safety nets.
[28] While providing some useful bench marking across countries, it is not clear from the report whether the same definition of safety nets has been used and also what information was available for each country.
[29] There may be some small anomalies between costs derived in the previous chapter based on the conversion from calendar year to fiscal year, as well as the way in which the wages and salaries of MoSD are incorporated in the framework.
[30] We have included our own estimates of the transfer values for 2014/15.

- Wages and salaries: includes the cost of staff from MOSD involved under the CGP.[31]

The baseline MTFF covering the three years 2014/15 – 2016/17 has been extrapolated up to 2020/21 based on historical trends and averages. The fiscal sustainability analysis looks at the cost of the CGP in the context of total government expenditure and GDP and based on its impact on the overall fiscal balance.

Table 10 MTFF baseline and projections 2014/15-2020/21

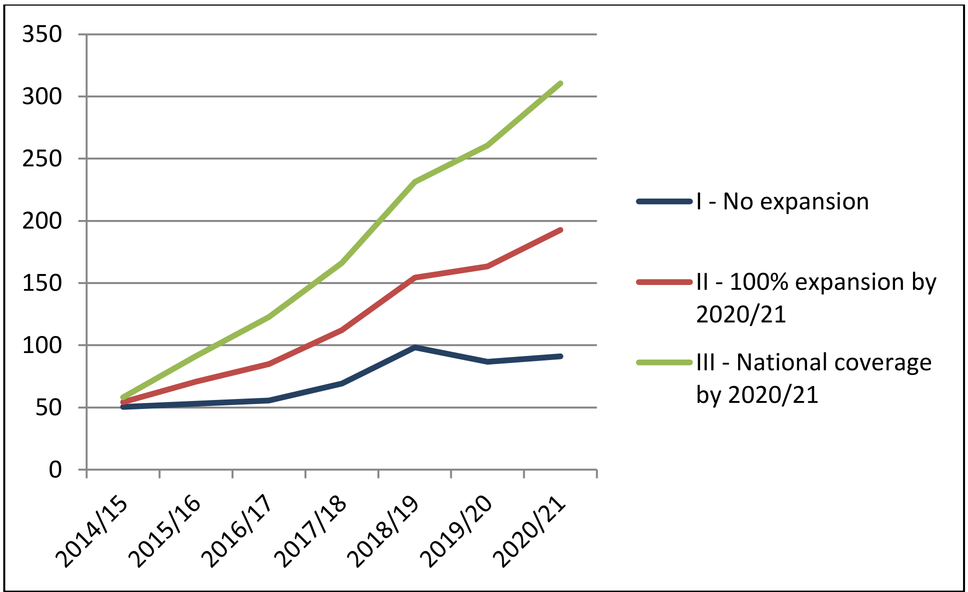
	2014/15	2015/16	2016/17	2017/18*	2018/19*	2019/20*	2020/21*
Revenue	15,340.6	16,408.5	16,749.3	17,645.3	18,786.5	20,049.0	21,426.1
Expense	-11,865.2	-12,624.8	-13,453.7	-14,423.8	-15,191.8	-16,288.9	-17,532.4
Overall fiscal balance	385.1	1,214.6	561.9	-108.0	270.8	61.1	-296.9

Source: Government of Lesotho, Ministry of Finance. * Extrapolation

6.3.2 Findings

The total cost of the programme under all three scenarios is between M50-M58 million in 2014/15 and between M91-M311 million in 2020/21 (Figure 10).

Figure 10 Evolution of CGP costs under different scenarios (M million)



Source: Authors' calculations

The impact of these three scenarios against the critical fiscal indicators is summarised in Table 11. The baseline assumes the continuation of the current CGP with no expansion of coverage (Scenario I). This shows that, over the seven financial years, the Government will achieve a fiscal surplus averaging approximately 1% per annum. However, this average is positively influenced by a large surplus of 4.7% in 2015/16 whereas the subsequent trend shows a consistent deterioration

[31] The estimated costs of wages and salaries are only included in the base year of the MTFF since they are currently not approved by the civil service commission. In Subsequent years we assume these to be automatically included in the updated MTFF as the framework takes the previous year's entire wages and salaries as its base for the following year and assumes this to grow based on a number of assumptions. Therefore the inclusion of wages and salaries within this framework for the future years would have resulted in overestimation of costs.

to a deficit of 1.1% by 2020/21. As shown in Table 11, the cost of the CGP is 0.4% of total government expenditure (0.2% of GDP) in 2014/15 and it remains fairly constant reaching 0.5% of total expenditure by 2020/21.

The cost of the programme under the scenario of 100% geographical expansion by 2020/21 increases steadily overtime and reaches 1.1% of total expenditure by 2020/21, equivalent to 0.5% of GDP. The fiscal deficit in 2020/21 is around 1.4% of GDP.

The upper bound costs of the programme are reflected under the scenario of full national expansion by 2020/21. Under this scenario the cost of the programme increases to 1.7% of total expenditure or 0.8% of GDP in 2020/21.

If the Government intends to maintain a balanced budget then expansion of the CGP appears to be unaffordable in the long term[32]. Compared to the baseline (with no expansion from the current coverage), Scenario II adds 0.6% to total expenditure by 2020/21 while Scenario III adds 1.2%. However, if the political judgement is that an expanded programme would contribute significantly to sustained poverty reduction for many of the poorest households, then it would be worth considering options to generate additional fiscal space, such as consolidation of the existing social safety net; reallocating funds from other sectors; or by raising additional revenue. It would also be possible to finance expansion of the programme through increased public borrowing. However, although that seems possible (based on existing debt sustainability analysis) it is not recommended as the additional debt would have to be serviced, reducing fiscal space in future years.

[32] As noted earlier this is based on the extrapolations of the MTFF that are less reliable beyond its intended three year projections.

Table 11 Fiscal sustainability of CGP under different scenarios

Annual cost	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Total cost of Transfer (Million Maloti)							
I - No expansion	**50**	**53**	**56**	**69**	**98**	**87**	**91**
II - 100% expansion by 2020/21	**54**	**71**	**85**	**112**	**154**	**163**	**193**
III - National coverage by 2020/21	**58**	**91**	**123**	**166**	**231**	**261**	**311**
Cost as % of total expenditure							
I - No expansion	**0.4%**	**0.4%**	**0.4%**	**0.5%**	**0.6%**	**0.5%**	**0.5%**
II - 100% expansion by 2020/21	**0.5%**	**0.6%**	**0.6%**	**0.8%**	**1.0%**	**1.0%**	**1.1%**
III - National coverage by 2020/21	**0.5%**	**0.7%**	**0.9%**	**1.1%**	**1.5%**	**1.6%**	**1.7%**
Cost as % of GDP							
I - No expansion	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.3%**	**0.2%**	**0.2%**
II - 100% expansion by 2020/21	**0.2%**	**0.3%**	**0.3%**	**0.4%**	**0.5%**	**0.4%**	**0.5%**
III - National coverage by 2020/21	**0.2%**	**0.4%**	**0.4%**	**0.5%**	**0.7%**	**0.7%**	**0.8%**
Fiscal balance							
I - No expansion	**1.6%**	**4.7%**	**1.9%**	**-0.5%**	**0.6%**	**-0.1%**	**-1.1%**
II - 100% expansion by 2020/21	**1.6%**	**4.6%**	**1.8%**	**-0.6%**	**0.3%**	**-0.4%**	**-1.4%**
III - National coverage by 2020/21	**1.5%**	**4.5%**	**1.7%**	**-0.8%**	**0.1%**	**-0.6%**	**-1.7%**

7 Conclusion and recommendations

This study looked at historical costs of the CGP under Phase I of the programme and projected the future costs of the CGP based on a number of assumptions and under certain scenarios. These costs were then analysed within the macroeconomic and fiscal framework of the country.

The **historical costs** of the programme for Phase I stood at around M82 million for the period between October 2007 and December 2012. Of these costs M31 million or 38% were transferred to beneficiaries.

The activities of the programme were grouped into activities that were once off (start-up cost), those that were repeated every few year (targeting and enrolment) and those that were deemed as regular and related to the day to day operations of the programme. Overall 15% of total costs of the programme during Phase I were related to the start-up of the programme, 12% related to periodic roll-out activities, and 69% related to day to day operations of the programme of which 38% were due to the transfer value.

When projecting the future costs of the programme, it was assumed that the costs incurred by the international partners (for example UNICEF) or cost of international consultancies providing technical support to the government would not realistically be incurred by the government and were thus left out of these projections.

The **future costs** of the programme were reviewed on three main scenarios to capture the lower and upper bound costs of the CGP:

1) The programme maintains its current level of beneficiaries
2) The programme expands its geographical coverage by 100% by 2020
3) The programme reaches national coverage by 2020

These scenarios assume that the benefits are linked to inflation, that the poorest 30% of households with at least one child under 18 years are targeted and that eligible households are retargeted every five years. Based on these parameters, the cost of the programme under the different scenarios ranged from M50-M58 million in 2014 to between M95-M320 million in 2021.

Analysed within the wider **macroeconomic and fiscal framework**, the current CGP (Scenario I) was deemed affordable based on our projections, even though the overall fiscal balance does appear to be deteriorating (showing a deficit of 1.1% in 2020/21). If the Government intends to continue its fiscal consolidation and maintain a balanced budget then the findings from this study suggest that it will be necessary to adopt a cautious approach to expansion of the programme (Scenarios II and III).

There appears to be a continued need for rationalisation of the entire package of social assistance benefits and wider social safety net programmes as they already account for a significant amount of total government expenditure. This could also involve a deeper integration of the operational processes of delivering social assistance with a view at achieving economies of scale. The use of NISSA as a national repository (single registry) for information on vulnerable households, if deemed appropriate, can provide an opportunity to share the cost of targeting and retargeting across a larger number of programmes. MoSD is also piloting the integration of payments and case management systems of the Public Assistance, OVC bursary and CGP as part of the Integrated Social Safety Nets pilot. While this can account for some rationalization of roll-out and operational costs, by far the largest share of the total costs of the CGP expansion is represented by transfer costs.

Ultimately the key policy question derived from this study is whether the CGP is an effective and efficient mechanism to reduce poverty and therefore whether it is preferred to alternative spending programmes currently being undertaken or planned for (i.e. an objective assessment of relative opportunity cost of CGP versus other programmes). This argument may involve consideration of design issues such as the eligibility criteria (e.g. perhaps the programme should only be provided to the poorest 10% or 20% of households rather than 30%).

The follow up impact evaluation of the CGP (OPM 2014) found it to be mainly used as a safety net for households' food requirements and children's educational needs resulting in more sustained impact on food security and some improvements in school enrolment and child morbidity.

While the CGP has been rigorously evaluated and deemed that it has reached poorer households and improved their well-being, most other safety net programmes have not been rigorously evaluated or reviewed. This makes the comparison of different social safety net programmes difficult. This study therefore recommends a more **rationalised and harmonised approach to safety nets** that includes clear understanding of the objectives of each programme, their intended targeted populations and the selection of the most appropriate interventions based on assessment of current needs and vulnerabilities and rigorous review and evaluation of existing social safety net programmes.

Policy makers should note that once an expenditure programme providing subsidies or transfers is established, it can be extremely difficult to cut back those entitlements even when the fiscal situation deteriorates. Since GoI has made a formal commitment to the expansion of the CGP, decisions about its value and targeted population must be considered very carefully within the long-term context of sound public financial management and the Social Protection Policy it is currently developing.

Annex A Main assumptions used to measure the historical costs of the Child Grant Programme Phase I

A.1 Overview

This section provides a summary of assumptions used for deriving the costs of the Child Grants Programme during Phase I and the likely trajectory of costs going forward under a number of alternative scenarios. The costs are provided on a quarterly basis to match the regularity of payments and provide a meaningful basis for analysis. The costs are based on the calendar year, but converted into the fiscal year when looking at its affordability. The assumptions below are grouped by agency.

A.2 UNICEF

UNICEF costs have been extracted from a comprehensive list of itemised registered expenditures[33] provided by UNICEF under the project "Support to Lesotho HIV and AIDS Response: Empowerment of Orphans and Vulnerable Children" – hitherto labelled as phase I OVC programme - that began in April 2007 and ended in December 2011 and its subsequent follow up programme "Enhancing Social Protection for Orphans and Vulnerable Children" – also known as phase II OVC support.

Phase I OVC programme
The OVC programme under Phase I contained a number of components including one on social protection.[34] The CGP was a sub-component under this category and therefore only costs related to this were kept. The remaining costs under this phase were allocated to CGP based on the following simple rules:

1) Costs clearly related to CGP were kept in their entirety, with the exception of transfers made to the Ministry of Social Development, Ayala, Concern Worldwide and the value of the transfer itself. These were completely deleted from the UNICEF costs and accounted separately.

2) General overhead costs and administrative activities under the social protection component were allocated based on the relative weight of CGP to total programmatic costs within this component. CGP accounted for 91% of total costs under social protection.[35]

3) Any other general overhead costs and activities under the programme were allocated to the CGP based on its share of total costs. According to the final actual expenditures social protection accounted for 54% of total costs of the programme. We simply took 91% of these costs, in other words 49% of total costs were attributed to the CGP.

4) The salary costs of staff members were allocated across the entire period of the project (i.e. between January 2009 and December 2011). Staff time spent on CGP over the period of the project was imputed based on assumptions provided by UNICEF. For staff where no such information was provided we allocated 49%, 91% or 100% of their time to the CGP on the basis of whether they were general programme staff, staff under social protection or

[33] In two instances, money was transferred by UNICEF and the refunded back in another quarter. To avoid showing large negative expenditures, we modified the dates of these refunds so that they now happen in the same quarter and cancel out the original expenditure.

[34] The full list of components were social protection, provision of basic needs, HIV prevention, access to education, supportive environment, institution capacity development, improving evidence and leadership and coordination.

[35] The revised budget for 2010-2011 included a total of M4.39 million for social protection and M4 million for the CGP.

fully engaged in CGP. Other related costs of staff including security, annual travel and relocation to Lesotho were not considered as part of this costing exercise, although such costs should be considered when setting up such programmes elsewhere as they are costs borne by the programme.

5) As a general rule we did not include the costs of UNICEF staff attending workshops and meetings outside the country. However in some circumstances we felt that these had to be included as they were very directly related to the CGP or social protection. In these cases we allocated 91% or 49% of these costs to CGP respectively.
6) We have included the 7% indirect costs charged by UNICEF to the European Commission (the funding agency). These are captured under the activity “institutional management and coordination”.

7) All costs were converted to Maloti based on average monthly exchange rates[36].

Once all relevant costs of CGP were captured, they were translated into standardised activities. A large proportion of the costs of UNICEF were attributed to ‘design’ and ‘Institutional management and administration’ of the programme. Other activities included capacity building and training, monitoring & field supervision, communication and purchase of equipment.

Phase II OVC support
In addition to phase I costs, we have taken costs for phase II of the programme for the period January-December 2012. We have done this to determine the operational costs of the programme during the ‘steady state’, a period when there were no design or investment costs and no new beneficiaries were added to phase I. For UNICEF this means keeping only costs that have been related to the general management and administration of the programme, excluding costs perceived as related to design of the phase II of the programme. For this period we aggregated all relevant costs and distributed them equally across the four quarters of the year.

A.3 Technical support firm – Ayala

At the end of 2009, Ayala was contracted by UNICEF to carry out an early study for the design of the CGP. We allocated the entire cost of this contract (provided by UNICEF) to design activities.

Ayala’s main assignment during Phase I began in the second half of 2010. Activities included the design and support to implementation of the CGP programme including the MIS of the programme and the development of the National Information System for Social Assistance (NISSA) that is ultimately aimed for use by other safety net programmes. The technical support firm provided an assessment of other Social Safety Net (SSN) programmes.

These activity based costs were provided to us by Ayala. We excluded all costs related to the SSN and incorporated the rest into the activities of the CGP. The activity costs provided by Ayala were grouped into the following activities:

- **Design** includes the design of NISSA, the assessment and design of CGP and the development of the MIS. All design costs were considered as one-off costs in Q3 2010, with the exception of the MIS costs that were spread across three quarters between Q3 2010 and Q1 2011.
- **Data collection** corresponds to the technical assistance provided to the implementation of NISSA. These costs were spread equally between Q3 2009 and Q4 2011, the time it took to collect the data.
- **Technical support to implementation** includes other support provided to the implementation of the CGP including enrolment, payments and monitoring. These costs have been spread across the period Q3 2009 and Q4 2012.

[36] http://www.x-rates.com/average/?from=USD&to=ZAR&amount=1&year=2007

- **Communication** costs related to the development of communication material and have been distributed equally across the entire period of the costing.

All costs provided by Ayala were in US$ currency and converted into Maloti using the average quarterly exchange rate.

A.4 World Vision

Phase I

World Vision joined the project in the summer 2010 and signed three project cooperation agreements (PCA) with UNICEF to implement the "support to Lesotho HIV and AIDS response". Overall, Phase I of the CGP represented 29% of the overall budget.

For Phase I, World Vision provided us with a monthly breakdown by activity of the actual costs related to the implementation of the CGP as well as direct support costs for the wider OVC programme. The document referred to five main components: capacity building & training ("implementing guidelines"), community mobilisation, data collection for NISSA, Community validation / Enrolment and Case Management.

Direct project support costs and indirect costs include funds provided by UNICEF as well as funds provided by World Vision itself. The indirect cost therefore exceeds the 7% contributed by UNICEF. These direct support and indirect costs were allocated to the CGP based on its share of total OVC budget over the period July 2010 – September 2011.

Phase II

The costs for CGP phase II were used to derive unit costs for community mobilisation, data collection and validation. These unit costs are not included in the historical costs of the programme and only used for projecting future costs.

Under phase II, CGP related expenses were funded through three different channels: the EU grant, CERF and DFID grants. All CGP related expenditures undertaken under CERF and DFID are reflected in these costings.

As some invoices were not processed at the time this costing study was undertaken, an estimate was taken for this period. World Vision estimates that the costs accounted for so far (up to September 2013) represent 90**%** of the total amount.

Activities or costs that did not fall under the three main categories of community mobilisation, data collection or validation were allocated to these categories based on their proportion of total costs.

The indirect costs of the programme were applied to the total costs and average unit costs per household visited were derived by dividing these costs by the number of beneficiaries registered in the NISSA. These costs were differentiated by geographical zones as follows:

(i) community councils in lowlands and foothills
(ii) community councils in mountains and in the Senqu River Valley (SRV).

A.5 Payment cost

The costs of all payments made to beneficiaries, either through G4S or Standard Bank Lesotho (SBL), have been recorded. Information on the payment costs were extracted from invoices provided by G4S. The cost of transfers through SBL was provided by the MoSD.

Payments to G4S

The standard G4S invoices include the following components:

- A fixed fee that corresponds to the cost of delivering the money to a particular pay point. This fee varies depending on the remoteness of the pay point and means of transportation
- A stand down fee that corresponds to the cost of guarding the money during payment delivery.
- A packaging fee per envelope
- An insurance component, known as transfer of risk (ToR) that varies in line with the amount transferred.

G4S indicated that each pay point can deliver the grant to up to 600 beneficiaries in one day.

When several pay points have been supplied on the same day using the same delivery method, we have divided the overall fixed fee evenly between the different pay points and imputed the relevant share of the overall ToR and packeting fee to each community council. This was applied to the following community councils:

- Thaba-Khubelu that has always been paired with Ramatseliso;
- Maseepho and White Hill for the Q3 2011 payment and;
- Mathula and Qibing between Q2 2010 and Q1 2011.

While most costs were derived from invoices provided by G4S in some instances these were missing and the information was captured through other sources. These included draft invoices provided by G4S, confirmation through follow up with G4S and in a few cases estimated using the number of beneficiaries and payment amounts provided by the Ministry of Social Development and the unit costs derived from previous or subsequent payments. Finally we have added 14% VAT to these costs.

Payments to SLB

Standard Bank charges a fee (inclusive of VAT) per beneficiary served. The payment cost has therefore been calculated by multiplying this unit cost by the number of beneficiaries actually paid at any given pay date.

A.6 Ministry of Social Development

The costs related to the Ministry of Social Development can be divided into staff costs and costs related to use of goods and services. We explore each in turn.

Staff costs

The staff costs were derived from multiplying the number of staff employed in any given month (provided by the CGP unit) by their average salary by position (excluding gratuities) provided by the Public Accounts Unit of the Ministry. In instances where individual salaries were not available in a given month, they were imputed using historic or future salaries of the same position adjusted for average salary growth of that period. In instances where no salary costs were available for a particular position, estimates provided by the PAU and the HR director were used.

Project staff hired on a contract basis and funded through the EU grant received 38.5% gratuities until the end of 2009 and subsequently 25% until the end of 2012. These gratuities were included in the total costs. Since 2013 all project staff have been absorbed by MoSD and no short term gratuities are expected to be paid.

The proportions of staff time allocated to CGP activities were derived by weights provided by the CGP unit. While the costs of some staff were allocated to particular activities (e.g. payments for staff working on payments) others where no clear allocation was possible, were allocated to central and district administrative support.

Goods and services

The costs of Goods and services were derived from detailed monthly accounts that registered all transactions to and from the Ministry that are related to the CGP programme. These costs were grouped into broad categories and subsequently allocated to specific activities.

A.7 Payments to beneficiaries

Payments to beneficiaries and actual number of beneficiaries paid were derived from the following sources in order of importance:

1) final reconciliation forms
2) draft reconciliation forms found in the MoSD records;
3) draft reconciliation forms given by G4S; and
4) soft copies of the payment records held at the MoSD.

In some instances there were discrepancies between the hard and soft copies provided by the ministry. In these circumstances we used the figures from the hard copies.

The payment schedule for all Round IB and Round 2 community councils is based on dates provided by the project unit of the MoSD. The payment schedule for Round 1A community councils has not been provided and is based on the reconciliation forms and our knowledge of the intended payment schedule.

Annex B Main assumptions for future costs of the Child Grant Programme

B.1 Overview

This annex provides a description of the key assumptions used in projecting the population, poverty estimates and other key parameters of the programme.

B.2 Population projections

The total population of the country is derived from projections made by the Bureau of Statistics using the 2006 population census. We take the projections for the year 2014 and 2026 and assume a linear growth rate between these two periods. The population projections are made at the district level. To obtain estimates at the community council level we obtained weights using the 2006 population by village from the census. These population figures were aggregated to the community council and district level to provide us with our intended weights. We assume these weights to remain constant in future.

B.3 Poverty estimates

Data from the 2010 Household Budget Survey were used to rank households according to poverty. These poverty estimates are based on consumption aggregates provided by the BoS that are currently not adjusted for prices.

National level estimates for the total number of poor households with children - and their distribution across household types according to size - were derived for the bottom 10%, 20% and 30% of the population.

Total estimates were adjusted for population projections and the total number of eligible households was distributed across District and Community Councils on the basis of the 2006 census data.

B.4 Beneficiaries enrolled by the programme

The potential number of beneficiaries enrolled by the programme depends on the number of households actually registered in the NISSA and the proportion that are both poor based on PMT calculations and validated as such by the community. Since the programme is unable to know what the outcome of the validation process will be, we use the actual number of households enrolled as proportion of population of community council under Phase I. We apply this ratio to the number of eligible households per community obtained in the step before as the basis for estimating the number of beneficiaries enrolled in the future.

B.5 Cost of targeting

The cost of targeting is determined by multiplying the number of potential beneficiaries by the historical unit costs. The unit costs of households visited are derived from the costs under Phase II of the programme and grouped into two broad geographical units of lowlands & foothills and mountains and Senqu valley.

B.6 Payment costs

The payment costs are based on unit costs derived from historical data. The payment costs are grouped into the following main categories:

a) Cost of delivering through banks
b) Cash in transit in the lowlands and foothills
c) Cash in transit in Mountains and Sequ river valley
d) Cost of transfer through mobile money

Our projections use the existing payments structures and do not include the costs of transfer through mobile money.

B.7 Administrative support

The administrative support includes the staff costs and the costs of providing goods and services. These are explored in turn.

7.1.1 Staff costs

Staff costs include central and district level costs. For the central costs we have used the new proposed staffing structure and salary levels to determine the central administrative costs incurred by the programme.

While the district level staff are also derived from the new proposed staffing structure, we have used alternative assumptions for determining the costs of auxiliary social welfare officers. This is because the tool kit uses the old number of community councils, while the new staffing structure uses the new community councils. We assume a ratio of one auxiliary social welfare officer for every 2.4 community councils. This broadly equates with the new structure.

7.1.2 Goods and services

The projections take the historical costs of goods and services as a proportion of total costs and assume these to remain constant going forward.

Annex C The cost of targeting under phase II of CGP

Phase II of the CGP began in January 2012 expanded the programme in an additional 15 Community Councils. This annex explores the costs of targeting under this phase. The costs of targeting under this phase were used to inform the projected costs of the programme in the future. Costs here only include the costs of services provided by World Vision.

The total cost of targeting under Phase II of the programme was approximately M9.8 million[37]. This equated to M220 per household in NISSA, of which M99 was the cost of data collection and M67 the cost of validation (Table 12Table 12 Cost of data collection in Phase I and IITable 12).

Interestingly the targeting costs per household registered in NISSA under Phase II has increased by M58 from M162 under Phase I. This is equivalent to a 36% increase in costs. This may have been driven by the geographical terrain of the new targeted community councils.

Table 12 Cost of data collection in Phase I and II

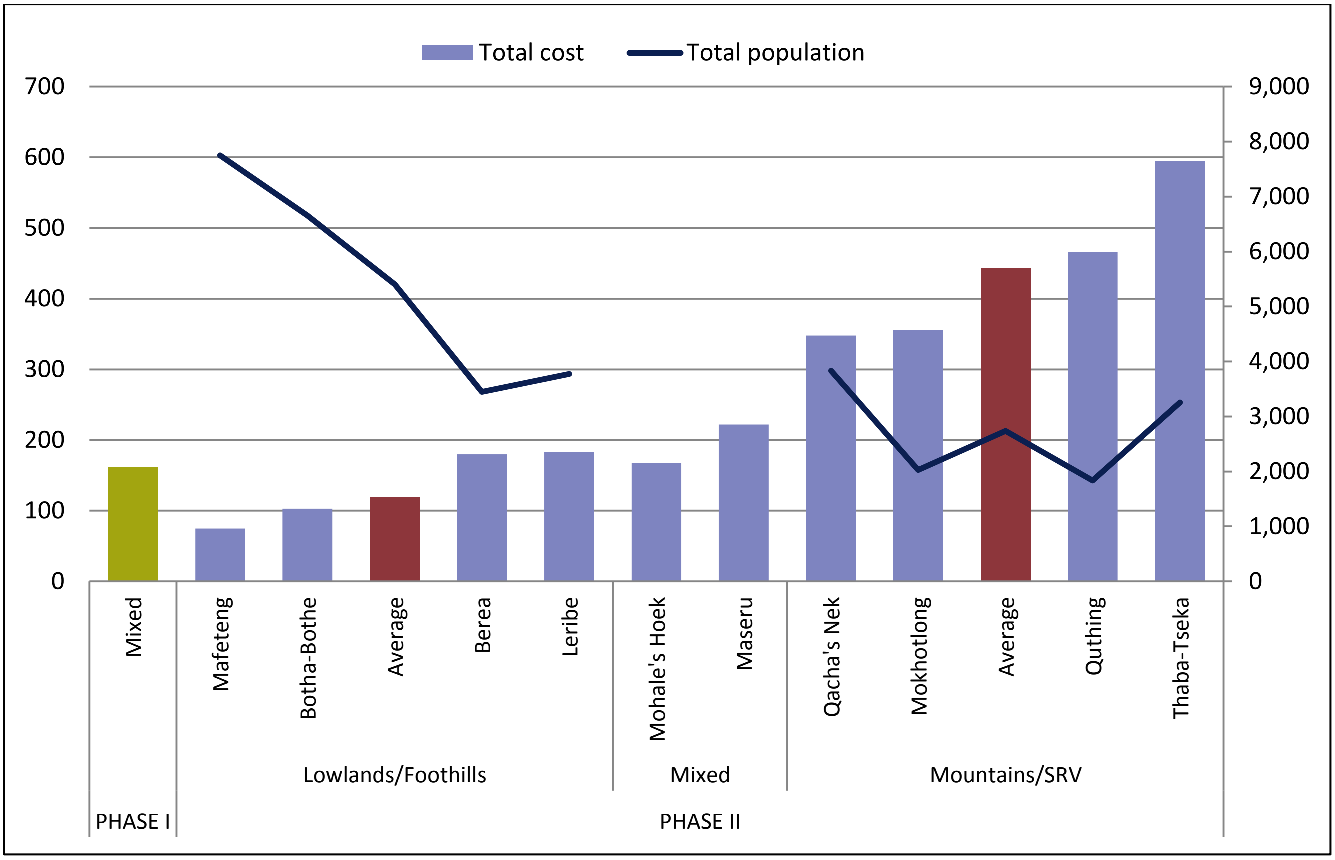
Activity (Maloti)	Phase I			Phase II		
	Total	%	Cost per hh	Total	%	Cost per hh
Community mobilisation	934,511	14%	**23**	1,974,395	20%	**44**
Data collection - NISSA	4,134,014	62%	**101**	4,431,557	45%	**99**
Community validation / Enrolment	1,271,669	19%	**31**	3,019,849	31%	**67**
Capacity building & training	259,973	4%	**6**	422,993	4%	**9**
Case management	16,978	0%	**0**	-	**-**	**-**
Total	6,617,145	100%	**162**	9,848,794	100%	**220**

Source: World Vision and authors calculations

The aggregate cost of targeting per NISSA household hides significant variation between districts. District costs varied from a low of only M75 per household in Mafeteng to M595 in Thaba-Tseka. This variation in costs reflects differences in geographic terrain, remoteness of the community councils within districts and population density. As shown in Figure 11, the more difficult the community council is to access and the less densely populated it is, the more expensive is the targeting cost. As shown in the graph, the average cost of targeting per NISSA household stood at M119 for districts with community councils in the lowlands or foothills. The average costs per NISSA household for districts with community councils in the mountain or Senqu River Valley (SRV) was M442.

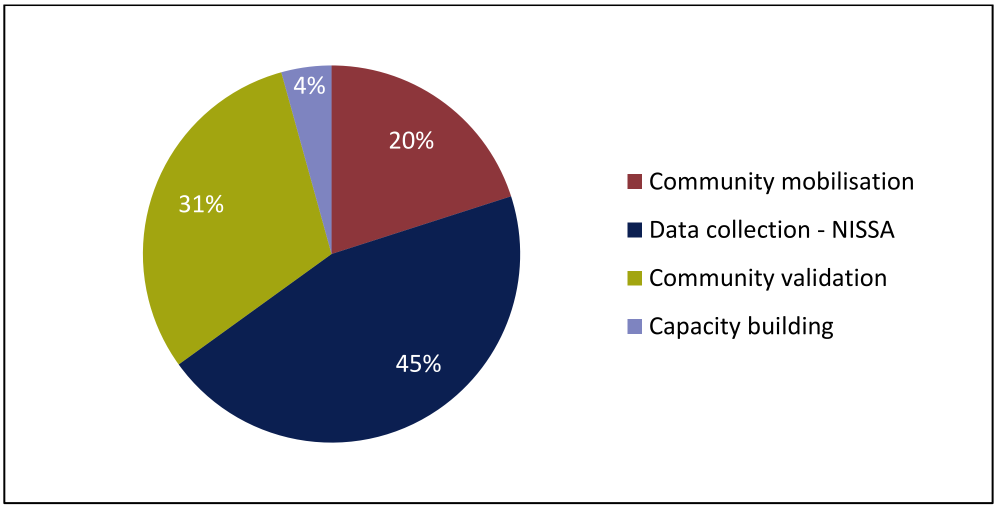
[37] Note that at the time of analysis it was estimated that only 90% of the costs had been processed and as a result the costs provided by World Vision were marked up by 10%.

Figure 11 Cost of targeting per household surveyed in NISSA



Source: World Vision and authors calculations

Figure 12 Breakdown of targeting costs for World Vision under Phase II



Source: World Vision and authors calculations